

NEWS: EUROPE

Move to cool Crimea row thrown out

By Jill Barshay in Kiev

Ukraine's divided parliament yesterday rejected a proposal by President Leonid Kravchuk to set up a constitutional court to resolve the status of the disputed Crimean peninsula. Instead, it voted for a four-point resolution which suspended the quasi-independence constitution introduced by Crimea two weeks ago and called on the president to come up with a list of "concrete measures" by June 6 to ensure Crimea's compliance with Kiev's wishes.

It also set up a parliamentary commission to seek ways of harmonising Ukrainian and Crimean legislation within the next month.

The rejection of Mr Kravchuk's proposals was another step in the internal power struggle between parliament and president but merely led to the search for another formula which gave the semblance of activity while holding back from actions which carry the risk of conflict between Ukrainians and ethnic Russians.

The long-standing dispute between Kiev and the ethnic Russian dominated Crimean parliament reignited earlier this month when the latter unilaterally reintroduced a constitution which barely stops short of bestowing full sovereignty on the region.

The peninsula, a holiday area, was part of Russia for two centuries until transferred to Ukraine in 1954. A 10-day Ukrainian-imposed deadline to rescind the constitution passed unobserved two days ago.

Mr Kravchuk's attempt to cool the temperature of a dispute which threatens to grow into violent conflict between Russians and Ukrainians earned a contemptuous response from many Ukrainian nationalist MPs in the deeply divided Ukrainian parliament. It was interpreted as a sign of weak leadership from a lame duck president hobbled by the proximity of presidential elec-

tions on June 26.

The Crimean dispute is closely linked to the status of the former Soviet Black Sea fleet, which is based in the peninsula. Three days of talks between the Russian and Ukrainian prime ministers last week failed to remove the impasse.

Mr Kravchuk stated yesterday that while Russia had no objective need for a fleet based on Ukrainian territory it was unrealistic for it to be withdrawn immediately.

Yesterday was doubly humiliating for Mr Kravchuk as rejection of his constitutional court proposal by the bitterly divided Ukrainian parliament was matched by the studied indifference on the part of the Crimean parliament to his repeated call for Crimea to rescind its quasi-independence constitution.

During hours of heated and often confused debate several nationalist MPs in the Kiev parliament demanded the establishment of direct presidential rule over the peninsula, while Mr Serhiy Holovaty, from the democratic opposition, summed up the attitude of many to the president's proposals when he complained that "one month is a long time and we have no guarantee that the court will be formed in that time or that it will carry authority".

Mr Holovaty advocated the calling of a state of emergency, while MPs from eastern Ukraine, where separatist demands similar to those of Crimea are brewing among the many Russian-speakers, argued that Ukraine should move, like Russia, towards a federal structure in which all regions would have more autonomy.

Mr Gennadiy Ugarov, an MP from the "Unity" faction spoke for many ethnic Russians when he told the parliament: "We must take reality into account and accept Crimea as it is, whether we like it or not." The stand-off continues.

VW pressure on Madrid over Seat funding

By Michael Lindemann in Hamburg and David White in Madrid

Volkswagen said yesterday it hoped to end talks with the Madrid government "in the next two weeks" to clear the way for further restructuring at Seat, its loss-making Spanish subsidiary.

The company said it wanted Spain to contribute DM250m (\$500m) to fund redundancies at Seat. It claimed there were "positive signals" that the government would make funds available and a further meeting was scheduled for next week.

However, in Madrid, the industry ministry said it would only be willing to pump more money into the Barce-

lona-based car company for new development projects. The government also argues that its scope for providing help is limited by European Union rules.

Mr Juan Ignacio Moltó, secretary of state for industry, told VW representatives on Tuesday the government was not prepared to fund redundancy packages. Excess labour was "a problem for private sector management". However, the Spanish authorities are anxious to see Seat maintained as a separate company within the VW group. The regional government of Catalonia, also under pressure to assist the loss-making company, has criticised Madrid for delay in resolving the issue.

Meanwhile, VW announced that it

had had "positive results" at company and group level in April and May but would not give details of profits. The company has already said it hopes to improve on its 1993 profit of DM71m at company level this year and to break even at group level following a loss of DM1.4bn last year.

Worldwide deliveries in the first five months rose 6.1 per cent over the year before to total 1.4m units. Germany was the only market where deliveries fell - by 4.1 per cent - a fact VW blamed on weak demand there generally and poor sales at Audi.

Several shareholders were angry that the VW management had not foreseen the DM1.84bn losses at Seat

last year but there was broad support among the 3,500 shareholders for Mr José Ignacio López de Arriortua, the VW production chief at the centre of suspicions about industrial espionage.

Both Mr Ferdinand Piëch, the chief executive, and Mr Klaus Liesen, the chairman of the supervisory board, made impromptu comments after prepared speeches, reflecting the anger about Opel allegations in the days before the annual meeting. "There is up to now no evidence which would justify the charge of industrial espionage," Mr Liesen told applauding shareholders. Mr Piëch, in turn, denied all suggestion that Mr López would move to Seat.

Seat lost DM350m in the first quar-

ter of this year and VW hopes the group will end the year with a loss of around DM1bn, compared with a loss of DM1.84bn in 1993. The company is expected to become profitable again in 1995.

Mr Piëch said there were two solutions at Seat. A "friendly" one would be to leave Seat as an independent subsidiary. A more drastic alternative would involve merging Seat with other VW operations, leaving only an independent sales unit. It has asked the Spanish government to fund the redundancy of older workers, who are entitled to three years' redundancy payment which will cost about DM180m. Otherwise, VW says it will spend DM160m to shed the same number of younger workers.

Lines open up to Europe's information society

The long-awaited Bangemann report says liberalisation of telecoms is unstoppable, writes Emma Tucker



Martin Bangemann: "Our purpose is to make clear that we cannot hold up this process. Nobody can."

It is too late for member

states of the European Union to stand in the way of telecommunications liberalisation, Mr Martin Bangemann, the industry commissioner, insisted yesterday.

Presenting a summary of recommendations from his long-awaited "Information Society" report, Mr Bangemann said: "Our purpose is to make clear that we cannot hold up this process. Nobody can."

To be presented to EU leaders at next month's summit in Corfu, the report says member states must accelerate the process of liberalisation by opening up to competition those infrastructures and services that remain monopolistic.

Flanked by senior figures from the electronics industry, Mr Bangemann said: "Private investors will only get involved in a market which promises a

return on their investment."

The report highlights some of the challenges that lie ahead for the Union if it is to keep abreast of rapid developments in the field of telecommunications. For example, it raises the prospect that out-dated and anachronistic laws in areas such as media ownership, intellectual property rights and security of information will have to be replaced if the EU is to have an appropriate regulatory framework.

It identifies a number of areas where cross-border differences could continue to hinder an internal market in telecommunications. It recommends, for instance, that urgent attention be paid to the problem of media ownership, where divergent national legislation could undermine the free movement of information.

Currently, rules governing media ownership between the member states differ widely.

With different media services

gliding ever more easily across frontiers, failure to harmonise these rules could lead to problems of access. The report adds that effective rules to ensure that ownership is not concentrated in one or two powerful hands must also be put in place.

On intellectual property protection, the report lacks specifics but highlights the need to adjust the present out-dated rules, many of which were invented before information and creative products could be dispersed as easily as they are now.

The report also urges the EU to speed up the process of European standardisation, making interconnection of networks a primary objective. And, as a matter of urgency, international long-distance and leased-line tariffs should be adjusted to bring them into line with rates practised in

other advanced industrialised

regions, it says. The group of industrialists that helped Mr Bangemann have also recommended that tariffs for mobile telecommunications be reduced, and that a regulatory framework for satellite be established.

As for funding, the report says that "the creation of the information society should be entrusted to the private sector and to market forces". However, the recommendations are vague on the issue of existing public funding, saying only that it should be "refocused more specifically to target the requirements of the information society".

Finally, it recommends that, given the urgency of the tasks ahead, member states should now nominate individual ministers to represent it at a new council of ministers dedicated to the information society.

Bosnian talks to reopen amid warnings

Bosnia's warring parties were due in Geneva today for talks on the republic's future which diplomats are describing as virtually the last chance for a negotiated settlement.

While Mr Radovan Karadzic, the Bosnian Serb leader, and

his military chief Radko Mladic said they would certainly attend, there was uncertainty up to the last moment as to whether, and at what level, the Muslim-led government would be represented.

The talks have been

arranged amid warnings from western observers that the conflict could soon escalate, and a series of grim new revelations about the scale on which ethnic cleansing has been practised in Bosnia.

"People who are close to the peace process give the current talks about a one-in-four chance of succeeding," said Mr Michael Clark, director of the Centre for Defence Studies in London. He said the window of opportunity for a negotiated partition was closing steadily as France, and to a lesser extent Britain, were growing doubtful about the feasibility of retaining troops in Bosnia for another winter.

Meanwhile, the latest revelations about ethnic cleansing were reinforcing the determination of the Muslims and their international sympathisers to resist any settlement that appeared to reward Serb military gains.

The UN said 550 people crossed into Croatia yesterday, the latest in a stream of Croats

Our Foreign Staff reports on the latest peace moves and fears of more fighting

and Muslim civilians who have been leaving the Serb stronghold of Banja Luka under pressure from local warlords.

Separately, a UN commission on war crimes, in a report published in part by Reuters news agency, said 50,000 people had been killed or deported in one relatively small area of north-west Bosnia, around Prijedor. "It is unquestionable that the events in the Prijedor region since April 30 1992 qualify as crimes against humanity. Furthermore, it is likely to be confirmed in court under

due process of law that these events constitute genocide," the commission found.

Despite the gloomy background, Mr Vitaly Churkin, the Russian special envoy to Bosnia, sounded a more optimistic note after two rounds of talks with Serbia's President Slobodan Milosevic in Belgrade. He said he thought the Geneva talks would lead to a ceasefire.

However, the government in Sarajevo, bolstered by the new alliance between Croats and Muslims, has expressed reluctance to take part in further talks unless the Serbs withdraw fully from the UN "safe area" of Gorazde in eastern Bosnia.

The Bosnian government suspects Mr Yasushi Akashi, the UN diplomat who convened today's talks, of being too soft on Serb violations of ceasefire arrangements in Sarajevo and elsewhere. The Serbs say their troops in the Gorazde area have a legitimate function of maintaining order and protecting Serb refugees.

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9:45 Investment Support Measures within Spain's Industrial Policy

Mr Eugenio Triana -
Secretary General of Industrial & Technological
Promotion,
Ministry of Industry & Energy

10:45 The Automotive Component Sector

Mr Juan Llorens -
Chairman of SEAT

11:05 The Environmental Industry

Mr William J. Whitley BSc -
Managing Director of Watson España S.A.

11:25 The Tourism-Leisure Industry

Mr German Porras -
Director of Spanish Tourist Office in London,
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11:45 Practical Aspects of Investing in Spain

Mr Colin Blessley -
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EUROPEAN NEWS DIGEST

Man held over Schneider funds

A former business colleague of Mr Jürgen Schneider, the German property entrepreneur whose disappearance in April triggered Germany's biggest property crash since the second world war, has been arrested on suspicion of assisting Mr Schneider transfer up to DM750m (£300m) of company funds out of Germany.

The Cologne-based businessman, who was not named, is believed to be an Iranian who was managing director of a company within the Schneider group up to March this year. According to the state prosecutor's office in Frankfurt, the person arrested had established contacts with an unnamed Swiss bank and had allegedly helped Mr Schneider transfer the funds. He was arrested on Tuesday morning. Mr Schneider, whose whereabouts are still unknown after he failed to come back from holiday in Tuscany at Easter, has been accused by the Deutsche Bank, the property group's biggest creditor, of misappropriating at least DM218m of the group's funds. Other estimates suggest that he took up to DM750m from the group, which collapsed with DM50m debts. David Waller, Frankfurt.

Poland stays on reform course

Poland is to press ahead with painful reforms of the welfare system, aimed at cutting budget spending, as well as the consolidation and privatisation of the banking system. The capital market is to be strengthened through the development of investment and pension funds, according to a medium-term plan prepared by Mr Grzegorz Kolodko, the new deputy premier and finance minister.

The outlines of the plan were published yesterday as Poland started talks with a team from the International Monetary Fund on a new one-year standby agreement. The government plan, which runs until 1997, foresees an average annual growth rate of 5 per cent. It forecasts the achievement of single-figure inflation in 1997 compared with its present 25 per cent rate. The government also wants to see a reduction in the spread between lending and deposit rates. The unemployment rate is forecast to fall from 16 per cent to 14 per cent, while the budget deficit will reach no more than 3 per cent of GDP in 1997 from its present 4 per cent. Christopher Bobinski, Warsaw.

Pension rush as Italians fear cut

Employees on the Italian state payroll are rushing to cash in on early retirement pensions for fear of cuts in the current generous system of benefits. In the first four months of this year INPDAP, the entity responsible for public sector employees' pensions, yesterday reported it had received 29,260 requests for retirement. This compared with estimates, drawn up for budgetary purposes, of 14,580 and 43,700 for the year as a whole. The increase has been caused by the previous government's warnings on cuts in pension benefits and the new government's election pledge to end generous early retirement pensions. INPDAP said more than 90 per cent of the requests came mainly from people working in local government and municipally run bodies who had been working on average for only 20 years. Robert Graham, Rome.

General's killing blamed on Eta

A Spanish general was shot dead outside his home in central Madrid yesterday in an attack suspected to have been carried out by the Basque separatist organisation, Eta. The defence minister, Mr Julián García Vargas, said the shooting confirmed his "worst fear" that Eta has a well organised unit operating in Madrid. General Juan José Hernández Rovira, 58, a widower and the father of six children, held a senior administrative post in the Defence Ministry and had responsibility for general services and supplies to the Spanish forces. Tom Burns, Madrid.

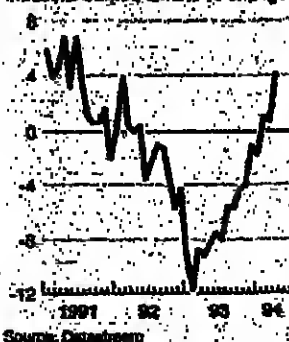
Euronews financial relaunch

The 15 public television companies which own Euronews said they had decided on a financial relaunch of the satellite news channel, and if this failed to materialise by October they would reconsider their investment in it. Lyons-based Euronews said shareholders wanted to prevent last year's start-up loss of FF150m (£5.5m) continuing. David Buchan, Paris.

ECONOMIC WATCH

West German output up 2.5%

Western Germany
Industrial output, annual % change



April also compares favourably over the corresponding period of 1993, with overall growth rising by 1.9 per cent, and the manufacturing sector increasing by 2.1 per cent. However, utilities fell by 4.5 per cent, largely due to weather conditions and high prices. Judy Dempsey, Berlin.

■ Dutch consumer borrowing rose 7.7 per cent year-on-year to Fl 3.2bn (£1.2bn) in the first quarter of 1994, the Central Bureau of Statistics said.

■ Spain's trade deficit widened to Pta273.4bn (£1.33bn) in April from Pta163.27bn in March and was up 30.2 per cent year-on-year, the Economics Ministry said.

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Scalfaro denies misuse of secret funds

By Robert Graham in Rome

President Oscar Luigi Scalfaro is becoming increasingly embroiled in a controversy over the use of secret funds during his time as interior minister in the 1980s.

Rather than stay aloof from damaging allegations that he was aware of the misuse of the secret funds by the security services, President Scalfaro has been drawn into making a series of rebuttals. These rebuttals have in turn raised more questions than answers.

The alleged misuse of these funds by interior ministers over the past decade has been under investigation by Rome magistrates for a year, and seven former top domestic intelligence officials are on

trial for embezzlement. At various stages all the accused have sought to implicate four former Christian Democrat interior ministers, including Mr Scalfaro, for operating a secret payments system from

angry unprepared statement to journalists. "I defy anyone to prove a single lira was spent by me or other interior ministers for anything other than institutional purposes."

Ever since then the opposi-

'I defy anyone to prove a single lira was spent by me or other interior ministers for anything other than institutional purposes'

unaccountable ministry funds. Mr Scalfaro held the portfolio from 1983 to 1987.

The Rome magistrates last week issued a statement saying they were not investigating the president after further accusation had been made in court. This prompted President Scalfaro to make an

tion Party of the Democratic Left (PDS), the former communists, as well as the governing Northern League and the neo-fascist MSI/National Alliance, have been calling for explanations of what these "institutional purposes" were. Having admitted he knew about the use of these funds it will be

difficult for him to avoid demands to be more specific. No one has denied the need for discretionary funds at the interior ministry, but the president's critics argue there should be some proof the monies were not being misused.

The raising of the temperature on this issue could make the president vulnerable on the question of his tenure. Even before the elections, politicians across the political spectrum had started to question whether Mr Scalfaro, elected by the discredited old parliament, should be allowed his full seven-year term, both the Northern League and the MSI have been giving ever stronger messages that the president can only remain as long as parliament deems fit.



President Scalfaro faces allegations from his days as a minister

Top Swiss banker backs derivative regulation

By Ian Rodger in St Gallen

The chief executive of Swiss Bank Corporation has backed the main recommendations of the US General Accounting Office for regulation of the controversial financial derivatives sector.

SBC, one of the top international banks in the mushrooming derivatives field, has thus distanced itself from US bank-

ing and securities industry representatives, who condemned the GAO's report.

The report came at a time of growing alarm that the increasing complexity, leverage and volume of futures, options and swaps contracts could in extreme circumstances lead to a collapse of the world financial system.

According to one estimate, the volume of contracts out-

standing exceeded \$18,000bn (£12,000bn) at the end of last year. Several industrial companies have reported huge losses in the past year arising from the unexpected behaviour of derivative contracts.

Echoing the GAO, Mr Georges Blum, SBC chief executive, said in a speech at the International Management Symposium in St Gallen that supervisors and regulators in

different countries "needed to be more in line with each other on what their aims and instruments should be".

Mr Blum also supported the GAO call for identical regulation of all types of firms active in derivatives.

He criticised regulators and supervisors everywhere for dragging their feet on agreeing accounting and disclosure rules on derivatives, and for

not legislating to reduce the risk in so-called netting of contracts. "If lawmakers are concerned about derivatives, these are the obvious areas they should look at first."

Mr Blum also denounced those financial companies who claimed that only low levels of capital were needed to cover their derivatives activities, saying they were "wishing to have your cake and eat it too". "If

the stress tests advocated by traders as a way to simulate the extent of the risks occurring in unusual circumstances have any utility, capital must cover the losses derived by the simulations," he said.

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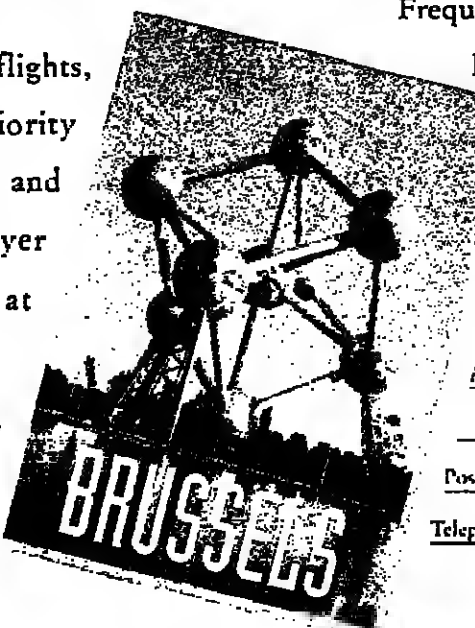
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NEWS: WORLD TRADE

CHINA MAINLY TO BLAME

Worldwide pirate disc sales double to 75m

By Michael Skapinker, Leisure Industries Correspondent

Worldwide sales of pirate compact discs doubled to 75m units last year, almost exclusively as a result of unauthorised production in China, according to the International Federation of the Phonographic Industry.

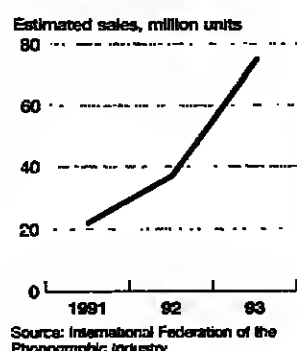
The IFPI said it expected CD piracy to increase further, unless China took steps to enforce copyright law.

The federation, along with Philips, the Dutch electronics group, has proposed that legitimate manufacturers mark CDs with a four-digit code which would indicate where they were made.

Sales of unauthorised music cassettes fell last year, however, to 675m units from 680m in 1992. There were substantial falls in pirate cassette sales in Mexico and Poland. The level of pirate music sales in both countries remained high. Unauthorised sales accounted for 62 per cent of all recordings sold in Mexico last year and 67 per cent in Poland.

The value of pirate recordings sold last year on either

Growth in CD piracy



CDs or cassettes fell to \$1.5bn from \$2.1bn in 1992. The federation said it would be wrong to draw any comfort from the decline, which was the result of lower retail prices and exchange rate movements.

The federation said the pirates appeared to be getting less for their recordings. The average worldwide price of a pirate cassette, outside China, fell 10 per cent to about \$2.70 last year. The price of a CD outside China fell from just under \$13 in 1992 to just under \$12 last year.

Chinese pirate producers saw CD prices fall even more sharply, from nearly \$11 in 1992 to \$4.50 last year.

Despite the activities of unauthorised Chinese manufacturers, the US was the biggest market for pirate products last year in value terms. Although pirate sales accounted for only 4 per cent of the US market, their total value was \$413.4m, compared with \$347.8m in China. Chinese pirate sales by value accounted for half the country's music market.

Mexico was the third biggest pirate market at \$196m, followed by Germany at \$132.2m and Italy at \$111.1m. Pirate sales accounted for only 5 per cent of the German market by value. In Italy, they represented 20 per cent of sales.

The federation said a change in piracy in recent years had been that unauthorised recordings were increasingly being sold in countries other than those in which they were manufactured. "Such product has been traced, for example, from its point of manufacture in China through Europe to its destination in South America."

Back on track in Romania

By Virginia Marsh and Chrystia Freeland, recently in Arad

In the 1980s, Astra, Romania's leading railway rolling stock manufacturer, helped the country fill its export quotas to the Soviet Union by designing special freight wagons strong enough to withstand Siberia's sub-zero temperatures.

Then came the collapse of communism and Comecon, the former East Bloc trading organisation, and Astra discovered that its expertise in building made-for-Siberia rolling stock was no longer of any value. To survive, Astra, like most factories in eastern Europe, had to make a radical turn to the west.

As it turned out, Astra - still owned by the state and run by its old managers - is one of the rare Romanian heavy industrial companies that is successfully making this switch. Before 1989, about 90 per cent of Astra's exports went to Comecon countries. Now, around 90 per cent of its exports go to western markets. And the company will export more than 70 per cent of the 450 wagons it expects to produce this year.

Under licence from French



Now dealing commercially: George Toduta (left) and Sandu Albuiescu of Astra

company De Dietrich, Astra, based in Arad, on the border with Hungary, 300 miles east of Bucharest, will begin production this year of Corail cars - top of the range passenger coaches capable of travelling at 125mph an hour - which it plans to export to western Europe, once it has built 200 for the Romanian railway company.

"It all started in 1990 when we were allowed to make contracts on our own and not through the ministry of trade or foreign trade companies as before," says Mr Sandu Albuiescu, trade manager. "Until then, we were obliged to give priority to Comecon countries. Now, we make deals on a commercial basis. We had to find new markets in the west due to the severe recession in this region."

Unlike their comrades in the former Soviet Union, Astra's managers do not long for the "good old days" of central planning, but they say their new freedom has its costs.

"We prefer the current conditions - we have got rid of a lot of the bureaucracy - the party, the ministries, the trade unions," says Mr George Toduta, deputy manager. During President Nicolae Ceausescu's iron reign, managers had to report production levels daily to Bucharest and, as Mr Toduta says, "the stress was much greater then".

The challenge for post-communist managers now, Mr Toduta says, is that while "the degree of freedom is much greater, so is the responsibility. If we work badly and make bad decisions, the factory will close down."

Astra already has contracts with German, Swiss, Austrian and Kazakh railways for 1,000 light oil transport wagons, a new model which it developed after 1989. To keep up with demand, Mr Albuiescu says the company needs to set up a new production line for the wagon and for a similar model for heavier oil products.

Western contracts mean that Astra, which first started manufacturing rolling stock in 1891, has had to upgrade its production to meet the high technical, quality and environmental standards required by its new customers.

Under the deal with De Dietrich, the French company has begun to transfer technology to Astra in Arad where the company can draw on a pool of some 300 engineers and designers at the local rail engineering

institute. De Dietrich is supplying Astra with a new production line, machine tools and components for the first 50 Corail coaches. It is also training Astra staff at its headquarters near Strasbourg.

Mr Albuiescu says the company's competitive edge comes from the labour force: "Wages for skilled workers are a fraction of those in France. The average wage in this country is less than \$100 a month."

He says the company has also become much tougher on its domestic suppliers, frequently sending back sub-standard goods. It sources the majority of its inputs locally with just some high-technology parts imported from abroad.

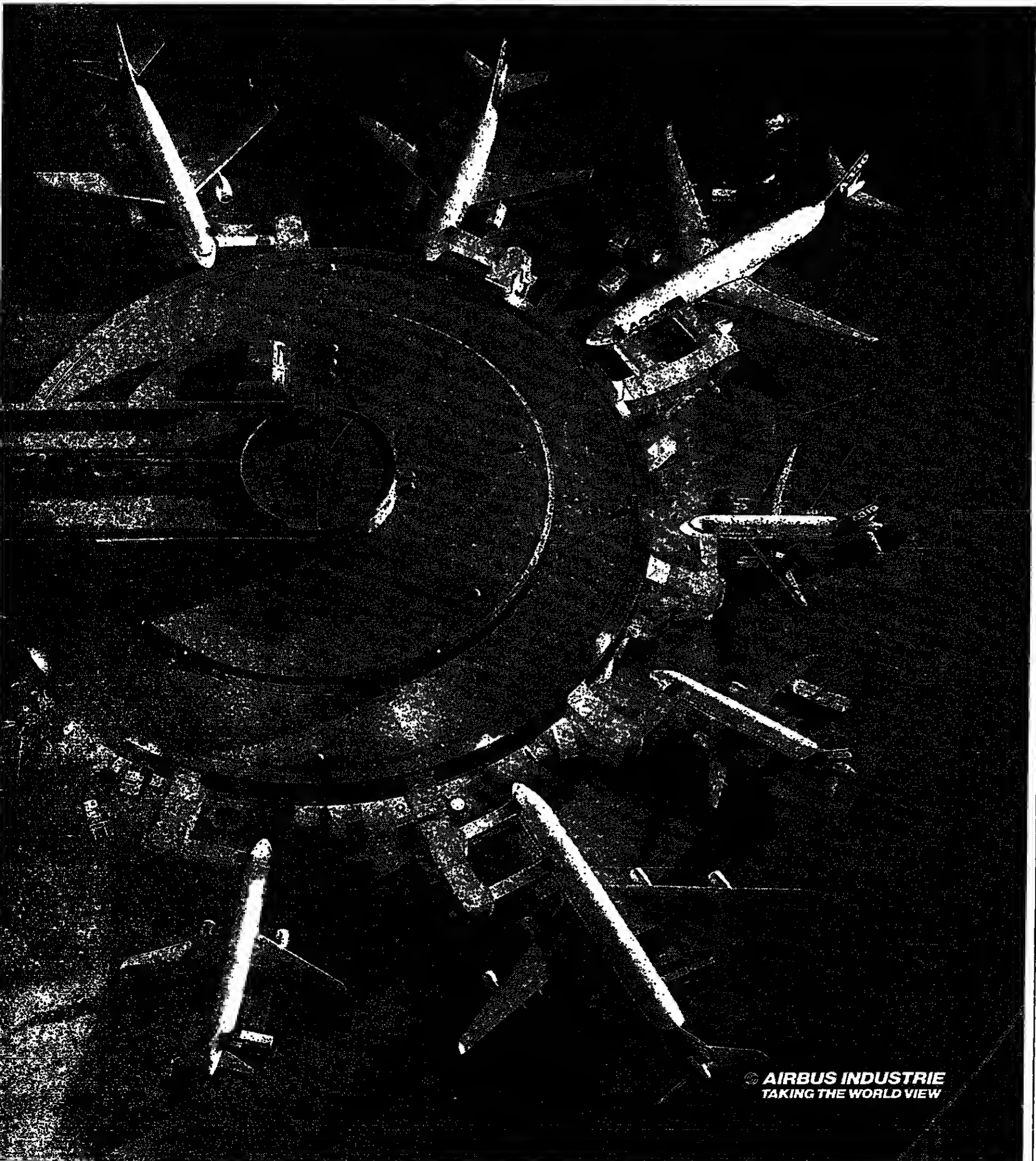
Mr Albuiescu says the new technology and emphasis on quality have lifted the value of Astra's exports even though it has shed a third of its workforce, produces fewer wagons than in 1989 and is working at just 60 per cent capacity. Exports were \$19.7m in 1993, up from \$16.8m in 1992.

The management, which has begun a restructuring plan, says it would like to see the company privatised, preferably by bringing in a strategic partner to help it update its technology. This is likely to take some time under Romania's slow-moving, bureaucratic privatisation programme, but Mr Albuiescu says De Dietrich and Bombardier of Canada are already interested.

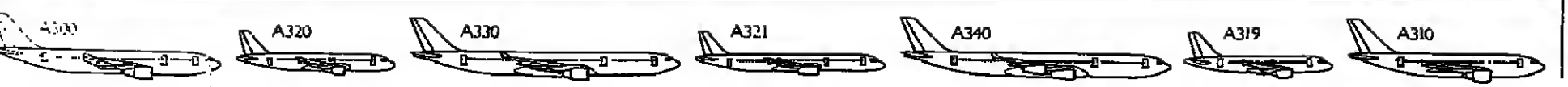
"The west is scared that Astra will soon be serious competition," Mr Toduta says with a grin.

If you think Airbus Industrie makes only one aircraft, maybe this will change your view.

Airbus Industrie has achieved a 30% share of the international civil aviation market because its long-term business strategy, based on a clear vision of the world's air transport needs, has created not just one aircraft but a family of seven: including the world's largest twin-aisle twin and the longest range jetliner in aviation history. Sales of all seven members of the Airbus family now total nearly 2000 aircraft worldwide.



AIRBUS INDUSTRIE TAKING THE WORLD VIEW



Japanese trade surplus forecast to fall by 6.1%

By William Dawkins in Tokyo

Japan's politically troublesome trade surplus will shrink by 6.1 per cent in 1994, the first drop in four years, according to the country's nine largest trading companies.

A survey by the Foreign Trade Council, the trading groups' industry body, predicts the trade surplus will fall to \$114.3bn (\$76.2bn) in the year to next March.

The forecast, a welcome sign as the US and Japan make a fresh attempt to break the deadlock in trade talks, is however a slight increase on the council's estimate in December of a \$113.5bn surplus.

This reflects the fact that Japan's main foreign markets are recovering faster than domestic demand. The council

based its forecast on 1 per cent economic growth this year - and that is well above average market expectations.

The surplus started to fall from the third to the fourth quarter of last year, but picked up again slightly, to the Japanese authorities' concern, in the first three months of 1994.

Exports will rise by 2.8 per cent to \$376.5bn this year, the council forecasts. The yen's strength will stimulate demand for imports, expected to rise by 7.4 per cent to \$362.2bn.

Semiconductor sales to US and Asian computer makers will be the star export performers, up 12.3 per cent, according to the survey. But it predicts that car exports will rise by a mere 0.4 per cent, due to the shift in production to lower-cost foreign plants.

Motorola to expand plant in Ireland

By Tim Coone in Dublin

Motorola, the US electronics and wireless communications manufacturer, has announced a £110m (£108m) investment in the Republic of Ireland, to expand its operations serving the European market.

Its Dublin plant, making pagers and two-way radios, will be extended to include the manufacture of batteries and battery chargers, as well as crystal oscillators which are also used in the company's communications equipment.

The project has been backed by Ireland's Industrial Development Authority and is expected to create 2,000 jobs over the next five years, one of the largest projects in job-creating terms that the IDA has been able to attract to Ireland in recent years. As much as a third of the additional workforce being taken on is expected to be made up of university graduates.

Mr Dominic Layden, Motorola country manager in Ireland, said that workforce skills were an important factor in choosing Ireland.

The IDA does not release details of grant support to individual projects until the publication of its annual report but, in general, grant support tends to average about 25-30 per cent of overall investment in a project and will be directly linked to the achievement of job-creation targets.

In announcing details of the project, Mr Ruairi Quinn, minister for employment and enterprise, said that the IDA had succeeded in creating nearly 4,000 new jobs in Ireland's electronics sector last year through attracting new investments, and that some 30,000 people are now employed in the sector in more than 300 companies. Output from the sector now accounts for more than a quarter of Ireland's manufactured exports.

Ruggiero backed to head WTO

By Frances Williams in Geneva

The Italian government yesterday said it would be nominating Mr Renato Ruggiero, a director of Fiat since 1981 co-ordinating the group's international activities and former Italian trade minister, as the head of the World Trade Organisation to be set up next year in succession to the General Agreement on Tariffs and Trade. Mr Ruggiero is the first publicly to throw his hat in the ring.

Sir Leon Brittan, the European Union's trade commissioner, is understood to have been notified of the Italian nomination decision yesterday. It appears possible that Mr Ruggiero will become the EU's official candidate.

Mr Ruggiero, who is 64, was Italy's trade minister between 1987 and 1991, critical years for the Uruguay Round of global trade liberalisation talks. He was one of the first to espouse the notion of a powerful world trade organisation to replace Gatt, an idea subsequently taken up by the European Union.

A career diplomat, Mr Ruggiero had a spell in the European Commission in the 1970s, where he was in charge of regional policy, and in the mid-1980s was the Italian "sherpa" for the G7 summits.

On past form Mr Ruggiero would seem to have a good chance. All the directors-general of Gatt have been Europeans. Mr Peter Sutherland, the present incumbent, was an EU nominee last year and is a former EU competition commissioner.

However, there is a growing feeling within Gatt that the time has come to break with tradition. Developing nations, who make up the bulk of Gatt members, believe they have a strong claim to provide the first WTO head. Mr Rubens Ricuperio, Brazil's finance minister and a former Gatt ambassador, is being canvassed.

Australian growth rate surges to 5%

By Nikid Tait in Sydney

Australia's economic growth rate surged to 5 per cent on an annualised basis in the March quarter, well in excess of both federal government and private sector economists' forecasts.

The previous set of data, for the 1993 calendar year, had indicated that the economy was growing at 4 per cent - itself the best figure clocked up for five years. But, according to data published by the Australian Bureau of Statistics yesterday, there was even stronger growth in the March quarter, with gross domestic product rising by 1.9 per cent in that three-month period alone.

The first quarter increase was driven primarily by government and private consumption, rather than business investment or net export performance.

The government's own budget estimates, published last month, suggested an annual growth rate of 4 per cent for the year to end-June, followed by 4.5 per cent in 1994-95.

News of the surging economy exacerbated worries that interest rates might have to rise fairly soon, prompting a

fall in bond prices and a sharp rise in the Australian dollar. The dollar reached a 20-month high, closing in London at 74.07 US cents, up from 73.83 cents.

Interest rate policy, the pessimists argue, could become a dilemma for the government, since business investment remains at very low ebb (and actually fell in the March quarter). The government, therefore, could have difficulties restraining private consumption without choking off business expansion.

Yesterday, however, Mr Ralph Willis, the federal treasurer, claimed that there were no signs that inflationary pressures were increasing, and hence that the data had no implications for interest rates.

"One can determine movements in interest rates as when we see a likely pick-up in inflation. We are not looking at anything here which shows you some pick-up in inflation," he said. "The government was still comfortable with its inflation forecast of around 2 per cent in 1993-94, Mr Willis added."

The treasurer also noted that the "early" Easter had affected consumption data, and contributed to the unexpected high growth figure.

The federal government

meanwhile announced yesterday that it had reached agreement with the Australian Council of Trade Unions, the umbrella body for labour organisations, on minimum national wage increases to apply in 1994 and 1995. The deal was reached under an accord unveiled in early 1993 and the latest in a series of compacts between the ruling Labor government and ACTU.

The agreement provides for a 3.5 per cent "safety net" wage rise to be paid to low income earners, spread across two years. This follows an A\$8 "safety net" increase awarded in last October's national wage decision - representing a A\$24-a-week wage rise over three years for workers who are not covered by individual "enterprise-based" agreements.

Mr Paul Keating, prime minister, said the deal should "deliver wage restraint that will lock in the low inflation rate". But the Australian Chamber of Manufacturers attacked the deal, saying the across-the-board rises, unrelated to productivity gains, would discourage business from employing more people or investing.

UN meeting on N Korea reactor rods

By John Burton in Seoul

The US, South Korea and Japan will consult tomorrow at the United Nations to discuss their response to North Korea's refusal to allow full international inspection of its nuclear programme.

North Korea has so far failed to comply with a statement issued by the UN Security Council on Monday urging it to stop removing spent fuel rods from its 5MW reactor.

The International Atomic Energy Agency wants to select and examine the spent nuclear fuel to determine whether North Korea has diverted plutonium from the reactor for its suspected nuclear weapons programme.

In an apparent show of force, North Korea on Tuesday conducted a test launch of a domestic version of the Chinese-designed Silkworm anti-ship missile.

Meanwhile, South Korean armed forces were placed on a routine high state of alert following the departure of President Kim Young-sam on a week-long visit to Russia and Uzbekistan.

North Korea may be within days of completing the removal of the fuel rods and ending any chance of the IAEA conducting an independent analysis of them to trace past nuclear activities.

The US has warned if North Korea passes this threshold, its negotiations with Pyongyang will be broken off and Washington will ask the UN Security

Council for economic sanctions against the North.

The North has warned that sanctions would be considered "an act of war".

The IAEA on Tuesday urged North Korea to accept "technical options" which might still at this late stage of discharge... preserve the agency's ability to verify the history of the [reactor's] core.

The IAEA rejected North Korea's proposed procedures to select and store the fuel rods for later examination, explaining that it "would not enable the agency to identify" where the rods had been located in the reactor core.

"Without such identification, future measurements [of the fuel rods] would be meaningless and the agency's ability

to verify non-diversion would be lost," it said.

North Korea is putting the discharged fuel rods into a storage tank "after writing the location and serial numbers on the rods, with monitoring cameras operating", a North Korean diplomat was quoted as saying in Vienna.

The IAEA will be able to examine the fuel rods once North Korea and the US conclude a package deal on diplomatic normalisation and economic aid, he added.

North Korea is refusing the IAEA's demands because it claims a special status under the nuclear safeguards treaty since it has only "suspended" its threatened withdrawal from the treaty last year.

New central bank governor wants to make island a regional financial centre

Taiwan promised liberalised markets

By Laura Tyson in Taipei

Taiwan's new central bank governor, Mr Liang Kuo-shu, took over yesterday with a pledge to liberalise Taiwanese financial markets with the aim of transforming the island into a regional financial centre during his five-year term.

He promised to push on with reforms in order to upgrade Taiwan's regulatory framework and bring more foreign financial institutions, capital and expertise into the country.

Mr Liang - who in his previous position as chairman of Chiao Tung Bank, a state-owned development institution, last year scuppered a planned joint venture between British Aerospace and Taiwan Aerospace to produce short-haul passenger jets - vowed to boost lending to local manufacturing and industry.

The accession of Mr Liang, 63, who holds a doctorate in economics from Vanderbilt University in the US, to the top banking job is viewed favourably by analysts and bankers. His experience in commercial banking was acquired during stints at the helm of each of



Taiwanese opposition member Su Chih-yang (left) perches on the podium in the National Assembly in Taipei yesterday, and other opposition members pull the hair of a clerk to stop her reading an agenda, in a dispute over the size of the quorum.

the three leading state-run commercial banks. Mr Liang also served as deputy central bank governor from 1975 to 1979.

Known for speaking his mind, Mr Liang might have become central bank governor several years ago had he not made enemies along the way. Soft-spoken but strong-willed, he is likened by one financial

sector operator in Taipei to a "thunderstorm" when angered. His predecessor, Mr Samuel Shieh, at times became embroiled in public stand-offs with the Finance Ministry and other government agencies. However, Mr Liang has close personal ties to President Lee Teng-hui, under whose auspices the central bank falls. He has been a financial adviser to

Mr Lee for some time. Mr Liang's wife, Ms Hou Ching-ying, is an economics professor and belongs to one of Taiwan's most influential families.

Analysts cautioned that while Mr Liang was firmly in the camp of the reformers, it would be difficult to change quickly the thinking of the central bank bureaucracy. Saying that "we have to

invite more international financial institutions to introduce more financial products to Taiwan", Mr Liang told a news conference yesterday. "To do so, we have to accelerate revising many out-of-date rules and establish new systems to attract them."

"The first step is to expand our foreign exchange market as a regional funding centre."

Resignation of party leader may help Hata

By William Dawkins in Tokyo

A leading member of the Japanese minority coalition is to resign his party post because of supporters' anger over his part in the Socialist's departure from the government.

Mr Keigo Ouchi said yesterday he would step down as chairman of the Democratic Socialist party, a small centre-right party, because of criticism over his support for the recent behind-the-scenes creation of a conservative alliance called Kaishin (Innovation). He will, however, stay on as health and welfare minister.

The gesture is a step in the government's strategy of trying to win back the much larger Social Democratic party, the key to its hopes of surviving for more than a few months.

The walk-out by the socialist SDP in April, in protest at what it saw as a conservative bid to dominate policy, deprived the government of a majority, so paralysing such crucial but controversial legislation as plans for a permanent cut in income tax and a rise in sales tax. Without the socialist support, Mr Tsutomu Hata, prime minister, had at the latest count just 202 seats in the 511-seat parliament, 54 short of a majority.

Mr Ichiro Ozawa, a close and powerful ally of Mr Hata, is generally accepted as the inspiration for Kaishin.

Even so, Mr Ouchi's move is likely to help assuage socialist ire, the latest in a series of surprisingly favourable developments for the five-week-old Hata administration. Socialist leaders have hinted in recent days that they might consider rejoining the coalition if Mr Hata first resigned, in a symbolic act of contrition for allowing the Kaishin grouping to be formed, and then stood again for the leadership.

The prime minister's recent decision to freeze a planned rise in utility prices has gone down well with SDP supporters. He yesterday vowed to produce plans this month to

streamline the administration and cut state spending, another popular policy.

Japanese businesses will welcome any sign that Mr Hata can delay another political crisis. They need a stable government to engineer a recovery and resolve the trade dispute with the US, on which the yen's value partly hangs. Yesterday's restart of shelved trade talks in Washington has done no harm to Mr Hata's standing in that respect.

The new government has also managed to unblock progress on the long-delayed national budget for the current year, another obvious concern for business. This is now heading for passage this month.

But to unfreeze the budget,



Hata: price freeze popular

Mr Hata has risked badly to agree to opposition demands to step up a parliamentary inquiry into political corruption. This will probably entangle Mr Ozawa and so risk giving the opposition an excuse to initiate a no-confidence vote.

The three main opposition parties, the Liberal Democratic party, SDP and Communists, yesterday agreed that Mr Ozawa should be called to testify before parliament on allegations of illicitly receiving political funds from construction companies. Their demand is hard to resist, given the government's minority position.

Manila GNP up 4.8% in quarter

By Jose Galing in Manila

Philippine gross national product grew by 4.8 per cent in the first quarter over the comparable period last year, a leap from the previous 0.3 per cent rise, government data published yesterday show.

The growth rate surpassed earlier estimates of 3 to 3.5 per cent, and gave rise to expectations of exceeding the 4.5 per cent target for all 1994.

The report confirms recent observations of a revival in the Philippine economy, following enhanced political stability and an end to the electric power shortages that bedevilled industries last year.

The policy-setting National Economic and Development Authority said a surge in industrial activity, along with increased remittances from Filipinos working overseas, spurred the first-quarter advance.

The internal economy, as measured by gross domestic product, went up by 3.8 per cent, a turnaround from a 0.01 per cent decline the year before.

Industry output rose 7.6 per cent, behind brisker activity in construction and manufacturing. This is largely attributed to the restoration of normal electric power supply during the period, in contrast to the power disruptions of up to 10 hours a day last year.

A number of new power stations were put on line last year, mostly undertaken by private groups under build-operate-transfer schemes with the government to plug the supply shortages.

The agriculture and fishery sector provided the dampener, declining by 0.9 per cent in the quarter as the effects of the typhoons that pummeled many parts of the country in late 1993 lingered in the first three months of 1994.

Mr Clelio Habito, Socio-Economic Secretary, said with the early onset of the local rainy season the agriculture sector should be able to recover and help "further accelerate GNP growth".

OECD pressed on Pergau Dam document

No political reason behind the delay, says directorate official, Jimmy Burns reports

The Organisation for Economic Co-operation and Development was yesterday coming under pressure to publish a long-delayed report thought to be critical of the controversial Pergau Dam project.

Mr Bernard Wood, director of the OECD's Development Corporate Directorate, justified the delay on "production difficulties" and said there were no other "technical" or "political" reasons behind it.

But the World Development Movement, a lobby group for the Third World which has strong parliamentary backing, described the delay as "extraordinary", given the continuing public interest in debating the Pergau project.

The OECD has been officially reluctant to fuel the trade row

between the UK and Malaysia by being drawn publicly into the Pergau project.

Privately, however, some senior OECD aid officials are believed to be sympathetic with the domestic UK criticism of the Pergau project which involved a linkage between aid and military contracts.

The OECD report is thought to have identified the conflict of interests that arose in the decision by the British government to approve the Pergau project after overruling advice from its own civil servants responsible for aid.

The Overseas Development Administration, the government department responsible for overseeing the UK's aid programme, said: "We are happy for the OECD report to

be published as soon as possible."

An ODA official said it was pressing the OECD to explain what the production difficulties involved.

The OECD's report was completed in March, following a critical review from Finnish and Belgian examiners appointed by the organisation's development assistance committee (DAC). A draft report was circulated soon afterwards and approved by member countries with minor amendments to its wording.

In the OECD's latest newsletter, Mr James Michel, DAC chairman, refers to strong support among members for the principle that all aid should be subjected to the full standards of normal assessment, and that

"aid quality should predominate" in decisions.

A report by the House of Commons foreign affairs committee is in process of being completed and is due to be published before the start of the summer. Kieran Cooke adds from Kuala Lumpur: After several months' negotiations, Malaysia says it is ready to sign an agreement with Russia on the sale of 16 MIG-29s for use by the Malaysian air force.

Mr Najih Abdul Razak, Malaysian defence minister, said the purchase agreement would be signed with the Russians next Tuesday.

Malaysia originally announced plans to buy the MIGs in the middle of last year. But final negotiations were

complicated by Malaysia's wish for extensive technology transfer and a stipulation that part of the purchase would be paid for in palm oil.

It is believed about a quarter of the \$615m (\$410m) cost of the MIGs will be covered by Malaysian palm oil exports to Russia. The Russians are said to be offering a maintenance and training package with the MIGs. Malaysian companies will also be involved in some parts manufacturing for the fighters.

The first MIGs are likely to be delivered to Malaysia by mid-1995. The deal is the first big arms sale by Russia in the Asian region.

Malaysia's armed forces are going through an extensive modernisation programme.

Britain, Iran exchange diplomat expulsions

By Roger Matthews, Middle East Editor

Relations between Britain and Iran deteriorated further yesterday as both governments announced the expulsion of a diplomat.

The Foreign Office in London yesterday made public its decision to expel Mr Vahid Rezaei, first secretary at the Iranian embassy, for allegedly distributing forged documents about British policy in Bosnia. Iran had been told of the British decision last week, when it was agreed that no publicity would be given to the expulsion in the hope of avoiding further repercussions.

However, Tehran said yesterday it was retaliating by expelling Mr Hamish Cowell, the deputy head of the British mission in Tehran. No further official explanation was offered by the Iranian government, but

Iranian newspapers linked the expulsion to "extensive British propaganda against Iran, designed to please the US".

The latest downward turn in relations between the two countries began in April when Britain accused Iran of establishing links with the IRA, and of planning to provide weapons and training for Irish republican extremists. Iran denied that any contacts had taken place and suggested instead

that a listening device had been found implanted in the wall of its refurbished embassy in London.

The Foreign Office said the Iranian diplomat had been asked to leave "because members of the Iranian embassy had been involved in attempting to distribute forged documents purporting to show that British policy in Bosnia was directed against the Muslims". Iran has become frustrated

at its inability to aid Muslims in Bosnia and the refusal by western powers to accept the deployment of Iranian peacekeeping forces in the former Yugoslavia.

The regime in Tehran also believes that Britain is playing a key supporting role in the US policy of denying Iran access to international financial markets at a time of growing economic difficulties in the Islamic republic.

UN index points way to future civil wars

Persistent threats from hunger, violence and illness to individuals' security in their daily lives are the root cause of increasing numbers of internal conflicts worldwide, according to a report released yesterday by the United Nations Development Programme.

The Human Development Report 1994, the fifth annual assessment of quality of life in 173 countries, draws its conclusions from its key instrument, the Human Development Index (HDI). A total of 17 countries are heading for the kind of national breakdown witnessed in Somalia as a result of critically low levels of human development, it says.

The HDI, which ranks countries by a measure combining life expectancy, educational attainment and basic purchasing power, is intended to add

another dimension to World Bank reports on economic indicators by seeing how economic growth translates into people's lives.

This year, Canada tops the HDI list - scoring 0.932 on a scale of 0 to 1 - up from second place behind Japan in 1993, and Barbados, on 0.894, is ranked first for developing countries. A new measure showing HDI progress between 1960 and 1992 reveals that among the 114 countries where data were available, Malaysia, Botswana, South Korea, Tunisia and Thailand showed the most progress.

Life expectancy in the developing world rose from 46 years in 1960 to 63 years in 1992 and the infant mortality rate was halved. The adult literacy rate in the same countries increased from 46 per cent to 69 per cent.

Canada tops quality of life assessment, but many other countries are heading for disaster, reports James Harding

But Afghanistan, Angola, Haiti, Iraq, Mozambique, Burma (Myanmar), Sudan and Zaire face disaster as a consequence of critical levels of socio-economic deprivation. A bloodbath has happened in Rwanda while other countries which could face national breakdown include Algeria, Burundi, Ivory Coast, Liberia, Nigeria and Sierra Leone.

Of the 82 conflicts between 1989 and 1992, 79 have been within nation states and the report argues that national collapse has tended to follow persistent threats to the human security of the people. In the 1990s, military spending to social spending ratios were among the highest in Iraq (8:1),

Somalia (5:1) and Nicaragua (3.5:1).

Current patterns of aid distribution promise little remedy. Many nations have sacrificed human security for more sophisticated weaponry. India ordered 30 advanced MIG-23 fighters at a cost that could have provided basic education to all the 15m girls now out of school, the report says. Though global military spending has been falling 3.6 per cent a year since 1987, the cumulative "peace dividend" estimated at \$550bn (\$523bn) has not been harnessed for human development needs.

Patterns of development funding still bear the scars of the cold war, reflecting donors'

strategic interests rather than development requirements. On average, high military spenders receive about 2 1/2 times as much per capita as low military spenders. El Salvador, for example, gets 16 times more aid per person than Bangladesh, even though Bangladesh has just half the per capita gross domestic product.

The report suggests new financial arrangements for human development to be put into action at the World Summit for Social Development in March 1995, hosted by Denmark on behalf of the UN.

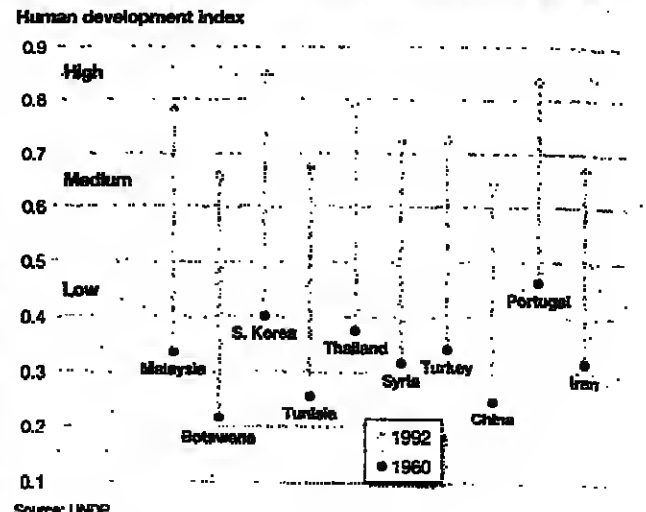
The core proposals are: ● A cut of 3 per cent a year in future global military spending, with a fifth of the savings

by rich nations and a tenth by poor nations earmarked for global human security.

● A global compact to provide basic education, primary health care, safe drinking water and family planning services by earmarking at least 20 per cent of the existing developing country budgets and 20 per cent of donor aid allocations to these human development projects.

● A global human security fund, financed from means such as a tax on the speculative movement of international funds, as suggested in a contribution to the report by Professor James Tobin, 1981 Nobel prizewinner for economics. The report also proposes the

Biggest advances in human development, 1960-92



establishment of an Economic Security Council in the United Nations to become the highest decision-making forum to consider issues such as poverty, unemployment, food security, drug trafficking, pollution and

population migration. The Human Development Report, Oxford University Press, 2001 Eans Rd, Cary, NC 27512, US. Telephone (919) 677 0977, fax (919) 677 1303. Price \$17.95

Every day is Clinton's D-Day

Jurek Martin tells of misgivings as the US president visits Europe

This ought to have been one of Bill Clinton's easier trips abroad. When he made his maiden presidential voyage to Europe in January, he was a man with a discernible and difficult mission - to set Nato on a new path and to stiffen the forces of reform in Russia - and at least he achieved mixed results.

This time, nothing on the agendas with the Italian, British and French governments, and even the Pope, compares in weightiness, unless it be Bosnia. Instead, his principal purpose is ceremonial, to represent his country at the commemoration of the 50th anniversary of the Normandy landings.

But there is an edgy sense of foreboding in the Clinton camp about the week that begins in Rome today and then hops back and forth across the English Channel. This is a president with a multitude of problems on his back. His opinion poll ratings have started to slip again, a White House aide has resigned for improper use of the presidential helicopter, his personal life and character are under legal and populist attack, his foreign policy (on his own admission) is subject to "relentless criticism", and the centrepiece of his domestic programme, healthcare reform, has just been deprived of the full services of the redoubtable Congressman Dan Rostenkowski.

The last thing Mr Clinton needs in these circumstances is a foreign foray that can be portrayed as a foul-up by increasingly hostile US media eager to pounce on any pratfall. In this respect, the ceremonial aspects of this visit are the most fraught with danger.

To put it crudely, the concern is whether Mr Clinton - who never served in uniform, was born three years after D-Day and opposed the Vietnam conflict - can play the public part of commander-in-chief as well as did President Reagan on the Normandy beaches 10 years ago, even though he fought the last war in the studios of Hollywood.

Late changes in Mr Clinton's itinerary demonstrate high sensitivity by White House planners. His first British land-



Remembrance: Mr and Mrs Clinton at a World War II memorial early yesterday in Washington

fall is to be at Cambridge, where there is a US military cemetery, not, as first intended, at Oxford, from where in 1969 he wrote his famous letter explaining why he did not want to be drafted.

Every move he makes will be watched for signs of unease or disaffection between him and the old soldiers gathered to celebrate a great expedition; Mr Clinton's natural milieu is not that of men in uniform, nor do such men mix easily with him.

The White House is also patently nervous about his treatment in the British press, particularly its lurid emphasis, far greater than most of its US counterparts, on the sexual harassment suit against him.

Aides recently surveyed several weeks of UK cuttings and found virtually nothing positive. They fear an eruption of bimbo stories while Mr Clinton is in Britain - but at least they now accept that would not be

orchestrated by Conservative Party central office.

Even the session with the Pope today is not risk-free from a media standpoint. Mr Reagan was once able to nod off with impunity in a Vatican exchange but the pontiff is expected this time to complain loudly about US abortion policies, specifically the more liberal approach the US is recommending for adoption at the UN population conference in Cairo in September.

The nuances of any presidential meeting with new neo-fascist members of the Berlusconi government of Italy will also be closely watched. Beyond the particular and the ceremonial, Mr Clinton must have a broader purpose in all his public comments while in Europe - which is to give a sense that he does have a coherent foreign policy. Mr Henry Kissinger, whose own reputation for a cool, calm and

collected strategic vision has just taken a fearsome battering in H B Haldeman's diaries of the first Nixon presidential term, was still able to write, in the current Newsweek magazine, in terms that resonate in Washington and around the world.

"Will we be driven to decisions in a way that makes us appear weak and rudderless - and tempts intransigent foreign leaders to test us - or can we formulate a basis of US policy that allows us to anticipate the challenges of the new international situation before they erupt into crisis? Most of the administration's shortcomings are remediable... but answering that basic question requires more discipline, organisation and focus than has been demonstrated so far."

Senator Sam Nunn of Georgia, chairman of the Senate armed services committee, was more to the point. Mr Clinton

"is involving himself more, and that is essential. But we expect too much of the president... If he's not going to spend a great deal of time on foreign policy he's got to designate one person to be in charge - and that hasn't happened yet."

The target of both was Mr Warren Christopher, secretary of state, now under fire yet again for what is seen as bungling of policy on China. But the president told the Los Angeles Times last Friday: "The last thing I need to be doing is considering changing my team." Mr Christopher is going to be doing most of the technical heavy lifting on this European trip, after Mr Clinton has returned home, at ministerial meetings of the Organisation for Economic Co-operation and Development, Nato and the North Atlantic Co-operation Council on three consecutive days.

To be fair, Mr Clinton, whose decision-making processes can be as agonisingly slow as his mind and mouth can be fast and loose, recognises the problem - "lack of confidence in me," he told the Los Angeles Times. He has also begun to speak more frequently about the US role in the world - on Monday, for example, equating past sacrifices and present

resorts. Clear contradictions persist, even so. The recent presidential directive on peace-keeping was more intent on defining where US troops would not be used rather than where they might. Yet the administration seems to be now investigating an invasion of Haiti, mostly on the grounds that it is in the US backyard and because the domestic pressure for intervention has been rising.

If US critics are frustrated, and if the Senate is so confused that it passes contradictory motions on the Bosnian arms embargo, it is hardly surprising that a rudderless Europe, accustomed to the lead and protection of the US, wonders what to expect.

Presidential foreign trips are usually good for domestic ratings. But, this time, Mr Clinton had better not put even the occasional foot wrong on a beach, in a pub, or in palaces and boats beyond number.

Indictment seen as a blow to 'politics the old-fashioned way'

Congressman Dan Rostenkowski has never made any secret of his belief that he is worth a great deal more than his congressional salary of \$133,600.

"In being shy about declaring our worth in an honest way," he said some years ago in a rare speech on the floor of the House of Representatives defending a pay rise for members of Congress, "all we are doing is reinforcing the impression that that is all we are worth."

He has frequently taken steps to stretch his congressional salary: in 1990, before new rules on members of Congress accepting fees for speeches to private groups, Mr Rostenkowski set a record with \$310,000 of honoraria.

Other members have their own techniques for making a dollar go further. Congressman Newt Gingrich of Georgia, the deputy Republican leader and one of the House's most outspoken critics of ethical lapses, uses a private political action committee to finance his trips to lengthy seminars and brainstorming sessions in holiday resorts.

Mr Rostenkowski could have retired in 1992 and pocketed more than \$1m from his campaign funds perfectly legally under now-expired rules that left long-serving members of Congress subject to older, looser campaign finance restrictions.

But a 17-count indictment filed in Washington DC on Tuesday by the US prosecutor charges that Mr Rostenkowski's efforts to stretch his salary went far outside the law.

"The allegations contained in today's indictment," said Mr Eric Holder, the US district attorney, "represent a betrayal of the public trust for personal gain. Mr Rostenkowski used his congressional office to perpetrate an extensive fraud on the American people."

Among other charges, Mr Rostenkowski is accused of drawing cash in exchange for stamp purchase vouchers at the House of Representatives

post office, of padding his congressional payroll with people whose tasks were to mow the lawn at his holiday home in Wisconsin or take photographs at his daughter's wedding, and of buying expensive gifts for friends and political allies on his office stationery account.

Mr Holder rejected suggestions that Mr Rostenkowski, who has sat in the House for 35 years, was simply doing business the old-fashioned way. "This is not, as some have

suggested, a petty matter... This was not conduct that was ever acceptable," he said. Yet every aspect of Mr Rostenkowski's personality and career reflected the old ways, writes George Graham

Every aspect of Congressman Rostenkowski's personality and career reflected the old ways, writes George Graham

at getting bills through the House. That skill existed before he took the Ways and Means chairmanship, then Speaker Tip O'Neill relied on him in the 1980s to take the pulse of the House on important issues - but it has been reinforced by his ability as chairman to return favours and settle scores.

Congressman Sam Gibbons, a courtly 74-year-old Floridian who took over the chairmanship yesterday after Mr Rostenkowski's indictment, has neither his predecessor's political sense nor his ruthlessness. But dire predictions that Mr Rostenkowski's fall would doom the Clinton administration's efforts to draw up healthcare reform legislation have, as is usual in Washington, been exaggerated.

The heart of the healthcare battle is, in any case, the Senate, not the House, and particularly the Senate Finance committee, the House Ways and Means' counterpart.

The tax lawyers who through the lobbies outside the Ways and Means Finance committee rooms always complain that everything will fall apart under a new chairman; yet business continues. Similar forebodings prevailed a year and a half ago when Senator Pat Moynihan took over the chairmanship of the Finance committee from Mr Lloyd Bentsen, who left Congress to become Treasury secretary.

Although Mr Moynihan has not been exactly the chairman the White House might have hoped for, thwarting the administration on several issues, he has certainly not been an incompetent flop. The same is likely to be true of Mr Gibbons. The institution of the Ways and Means committee carries an authority that transcends each successive chairman.

That is, perhaps, as Mr Rostenkowski, long one of the staunchest defenders of Congress as an institution, would like it.

Business in a changing world



The Prince of Wales and Robert Davies, CEO of the Business Leaders Forum, St Petersburg, May 1994

Unprecedented social, economic and political change around the world has dramatically raised expectations of the role of business in society.

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Sharing this vision, a group of international chairmen and chief executives have joined The Prince of Wales in forming the Business Leaders Forum, in order to promote good corporate citizenship and sustainable development internationally as a natural part of successful business operations.

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Industrial price increases revive fears of inflation

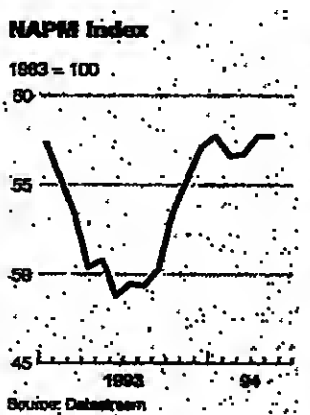
By George Graham in Washington

A new survey from the National Association of Purchasing Managers yesterday showed prices in the manufacturing sector continued to rise last month.

The NAPM said its composite index of activity in the manufacturing sector remained steady last month at 57.7, the same as April and a level that generally indicates an expanding economy.

But another sharp jump in the price component of the closely watched survey helped to revive inflation fears in a nervous bond market. The NAPM price index rose last month to 71.5, its highest level in four years and a marked increase from 63.2 in April and 49.9 six months ago.

"Economic growth continued at the same strong rate in May as in April, resulting in the broadest increase in manufacturing employment since late 1988 and the most widespread price increases paid by the



percentage of purchasing managers questioned who reported that they were paying higher prices for their raw materials. Nevertheless, some analysts said the NAPM's supplier deliveries index rose in May to 60.7, its highest level in six years, pointing to the difficulty suppliers are experiencing in meeting their customers' orders. Although some of this increase may be attributed to a road hauliers' strike, it could also herald price pressures.

Many stock market economists had anticipated an increase in the broader composite NAPM index, so yesterday's stable result provided less fuel for fears of overheating in the economy. Meanwhile, the Commerce Department reported that construction spending rose in April by 0.6 per cent to a seasonally adjusted annual rate of \$508.5bn. The department also revised upwards its estimate of March construction spending to an annual rate of \$505.4bn, a 1.9 per cent jump from February.

Jamaica likely to help with US processing of Haitian refugees

By George Graham in Washington

Jamaica was expected to announce yesterday that it will allow the US to set up facilities to process refugees from Haiti, becoming the first country to help the US out of its predicament over the Haitian boat people.

Mr Strobe Talbott, US deputy secretary of state, was to arrive in Jamaica yesterday for talks with the government, and US officials said an announce-

ment was likely later in the day.

The most probable arrangement would involve anchoring a large vessel, possibly a US naval hospital ship or a chartered Ukrainian cruise ship, in a Jamaican port to serve as a processing centre.

Haitian refugees picked up by the US Coast Guard as they attempted to cross to the US by boat would have their asylum claims handled there.

Those deemed to have a well-founded fear of persecu-

tion would be transferred to the US mainland or to the US military base at Guantanamo Bay, on the island of Cuba.

Others would be returned to Haiti.

The Clinton administration recently modified its policy on Haitian refugees in response to intense domestic and international pressure, abandoning the practice of automatically returning all refugees to Haiti without hearing their asylum claims.

LA police in mass absenteeism

Hundreds of Los Angeles police officers called in sick again yesterday, the third day in a row of mass "sick-outs", as an acrimonious contract dispute with the city continued. AP reports from Los Angeles.

Mayor Richard Riordan has urged the officers to accept mediation. The Police Protective League, the officers' union, did not favour this but

was expected to reply later yesterday to the mayor's offer.

Only 105 of the 317 officers and sergeants scheduled for the early shift yesterday arrived, the police department said.

Officers from the Tuesday evening shift were kept at work to cover.

The city estimates that the "sick-outs" are costing it

nearly \$1m (\$582,000) a day in overtime.

The city has nearly 7,700 officers who have worked without contract for two years. Los Angeles has been reluctant to offer police more money because of budget constraints. Last week, they rejected a 6 per cent rise over two years.

Starting pay for a new officer is \$33,187 a year.

Chileans start US trade talks

By David Pilling in Santiago

Preliminary talks about the possibility of Chile's accession to the North American Free Trade Agreement, or of a bilateral trade accord with the US, are due to start in Washington today.

Discussions between the five-member Chilean mission and the US trade representative's team will focus on investment protection issues. Although Chile has signed investment protection agreements with several countries, a US official doubted whether these met the stringent criteria demanded by Washington.

Mr Eduardo Aninat, Chile's finance minister, stressed that today's talks were strictly technical and that formal negotiations could not begin until the US congress had passed enabling, fast-track legislation. Once that had been done, Mr Aninat expects negotiations will proceed much more rapidly than they did with Mexico. "We can learn from the Mexican negotiations," he said.

The US administration hopes to add fast-track to ratification of the Gatt Uruguay Round, now before Congress, but controversy over approval of the round could overshadow discussion of Chile.

The Clinton administration, which has repeatedly stressed its commitment to sign an accord with Chile, has not yet decided whether this should take the form of a bilateral agreement or full access to NAFTA.

Canada, now the second most active foreign investor in Chile after the US, has pushed for Chile's integration to NAFTA, Mexico, which already has a free trade agreement with Chile, in principle favours extending NAFTA to other Latin American states.

The AFL-CIO, the US labour organisation, has come out in favour of a bilateral accord on the grounds that protection of labour rights contained in NAFTA is not sufficiently rigorous. Mr Richard Gephardt, Democratic leader in the House of Representatives, has proposed that labour clauses be written into the text of any agreement with Chile rather than negotiated as side issues.

Move to Euro-plugs could cost billions

By Jenny Luesby

British consumers face costs of £78m a year for 40 years if the UK backs a changeover to continental European electrical plugs and sockets, according to an independent report commissioned by the Department of Trade and Industry.

The report by the Building Services Research and Information Association estimates that a "big bang" changeover, backed by legisla-

tion, would cost consumers: ● £56m a year for rewiring. ● £7m a year for the replacement of old plugs. ● £15m a year in conversion costs passed on to the consumer by industry.

An alternative would be a voluntary changeover, which would take longer but be cheaper to the consumer, at an estimated cost of £19m a year over the next 40 years.

The DTI commissioned the report because it is considering

whether appliance manufacturers should be required to fit British or continental European plugs to products sold in the UK. It makes little sense to fit appliances with British plugs if a changeover to European standards is only just around the corner.

Cenelec, the European standards-making body, was yesterday meeting to approve the final draft of the standard for harmonised plugs and sockets across Europe. The standard

will then go to national standards councils for approval.

In assessing the overall benefits of a changeover, the Building Services Research and Information Association concludes that the Cenelec system would eventually mean cheaper plugs, but the consumer unit - at the point that the mains electricity enters the home - would be more expensive.

British homes are wired in rings, with the numerous sock-

ets on each ring made safe through a fuse in every three-pin plug. The continental European system is a radial system. Each socket is connected directly to the consumer unit by its own lead, removing the need for fuses in the two-pin plugs, but also preventing the fitting of different fuses to suit each appliance.

To convert to the European system, every house in the UK would need to be rewired. Once the transition is com-

plete, appliance manufacturers would need to fit only one type of plug to supply markets throughout Europe. Consumers would also save on any purchases of loose plugs. But building contractors would face higher costs in installing the new type of consumer units, and the makers of plugs, sockets and leads for the British market - which currently benefit from a protected market - would face much greater competition.

Britain in brief



Social chapter 'opposed by big companies'

Britain's big companies are overwhelmingly opposed to the social chapter of the Maastricht treaty, according to a Gallup poll for the Conservatives.

The survey of 801 top companies also reveals strong opposition to proposals by the European socialist group for a minimum wage and cuts in working hours to reduce unemployment.

Mr John Major, prime minister, said the poll showed the social chapter was "a licence to mess up the British recovery, a chapter of accidents waiting to happen".

He said Labour and the Liberal Democrats, which support the social chapter, were "stuck in the groove of the old corporate, centralised, over-regulated Europe".

However, Labour said the economy was being severely damaged by the government's lack of concern for public health and social welfare.

unemployment levels of highly qualified women, ethnic minority women were twice as likely to be unemployed as white women.

Phone bills cut

British Telecommunications announced price cuts worth £46m in a full year, mainly benefiting heavy residential phone users and businesses making international calls.

BT is cutting the cost of calls to Japan, the Republic of Ireland, Israel, Hong Kong, Bahrain, and some European countries outside the EU and cutting bills for residential customers paying more than £100 a quarter, a large proportion of whom have moved their long-distance calls to Mercury, BT's main competitor. Mercury responded by pledging to maintain its guaranteed savings on long-distance and international calls.

Oil database

Oil companies active in the UK are to set up a common database of geotechnical data in a move towards greater co-operation where there is no competitive advantage at stake. Such schemes exist in Norway and Canada.

Fewer failures

Business failures last month fell to the lowest level since December 1989, according to information collected by Touche Ross, the accountancy firm. Corporate collapses in May were 157, down from 171 in April and 229 in May last year. The report predicted that total failures for the year would be as low as 2,000, compared with 3,226 last year.

QE2 refit plan

The QE2 luxury liner, which has just celebrated its 25th year in service, is to undergo a £30m refurbishment. The work will involve redecoration of every cabin on the 69,000-ton Cunard ship.

A decision on where the work, to take place in November and December, will be done is expected by the end of this month. Seven years ago Cunard chose a yard in Bremerhaven, Germany, for a £110m refit.

Tax threat warning to pension funds

By Philip Coggan, Economics Correspondent

Abolition of the tax credit on dividends would "blow a £50bn hole in pension funds", says research published today by Kleinwort Benson, the merchant bank.

City concern about government taxation policy has risen in the wake of speeches from Mr Stephen Dorrell, the financial secretary to the Treasury, linking high dividend payouts to a lack of UK investment.

Investors fear that the tax credit on dividends, which was cut from 25 per cent to 20 per cent in the March 1993 Budget, might be reduced further or even abolished altogether.

"Abolition of the tax credit on dividends would slash 20 per cent off the gross yield on the UK equity market," says Kleinwort Benson. The average pension fund holds 55 per cent of its assets in UK equities, and so such a change would knock about 11 per cent off the actuarial value of the fund.

As the current market value of UK pension funds is about £500bn, this would create a shortfall of about £50bn.

Kleinwort says UK companies would have to increase pension-fund contributions to fill this hole, which would reduce their ability to invest. The fall in equity markets that would follow would also make equity funding more expensive.

Rover increases output by 26%

By Kevin Done, Motor Industry Correspondent

Rover increased car production by 38 per cent year-on-year in the first quarter, according to figures from the Society of Motor Manufacturers and Traders.

Overall UK car output was virtually unchanged in the first three months at 362,536, a decline of 0.5 per cent from the same period a year ago.

Higher output by Rover, the leading UK vehicle maker and a subsidiary of BMW of Germany, together with the rapid build-up of production by Toyota and Honda at their UK assembly plants, helped to offset declines at Ford and Vauxhall and a sharp fall at Nissan.

The rise in Rover output has been driven by the introduction of its Rover 600 executive car range, launched last spring, as well as by rising sales of the Land Rover Discovery and the Rover 200/400. The company recently introduced a Sunday shift to

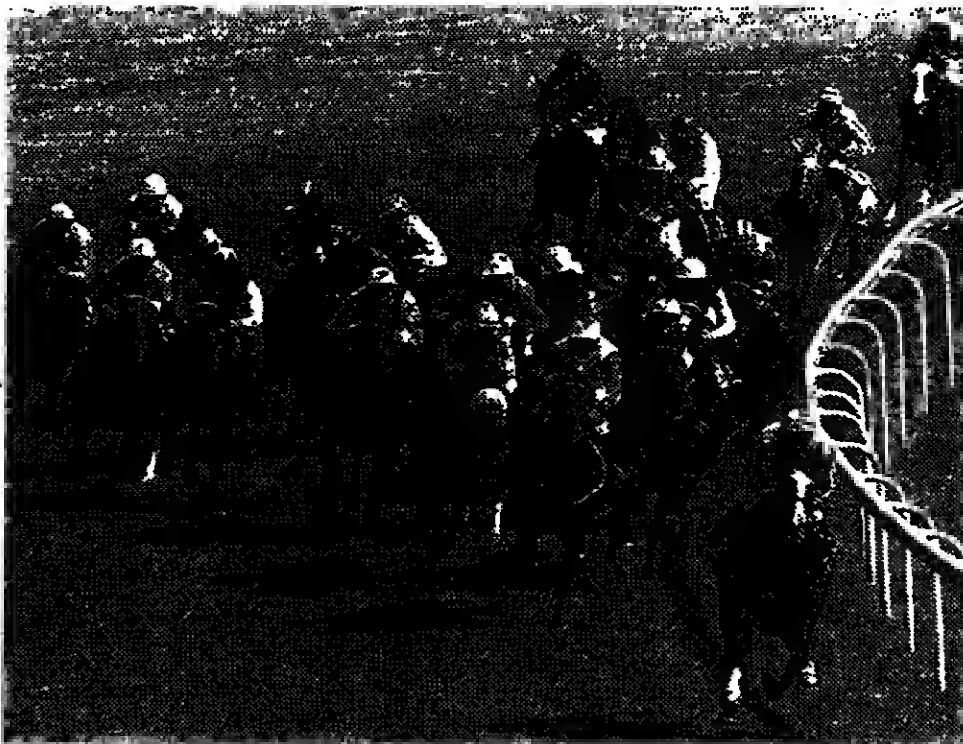
increase output of the 200/400.

Production at Nissan's £900m Sunderland plant fell by 45 per cent year-on-year in the first quarter. The company was forced to halve production for nearly four months until early March in order to cut stocks and bring output into line with lower demand in continental Europe.

Luxury carmaker Jaguar, a subsidiary of Ford of the US, and Rolls-Royce Motor Cars, a subsidiary of Vickers, the UK engineering group, are both regaining ground lost during the US and UK recessions.

Jaguar, which increased output by 43.5 per cent last year, raised production by 11 per cent year-on-year in the first quarter, while the maker of Rolls-Royce and Bentley cars increased output by 44 per cent in the first three months.

Production of commercial vehicles has begun to rise slowly, albeit from a very low level. Output in the first four months was 5 per cent higher than a year ago.



Willie Carson steered 7-2 favourite Erhaab to win a sprint finish to the Derby at Epsom, southern England yesterday. Pictured leading after the final bend is Mister Bailey, with Erhaab in the middle of the chasing pack. Erhaab won £470,000 for owner Hamdan Al-Maktoum in the biggest event in the flat racing calendar, beating King's Theatre (14-1) with Colonel Collins (10-1) third and Mister Bailey (14-1) fourth. The horse is trained in England by John Dunlop. Bookmaker Ladbrokes reported turnover up 20 per cent on 1993 and 50 per cent on last year when a popular favourite depressed the market. Some 5m British punters staked up to £40m on yesterday's race.

Work tensions increasing, says conciliator

Tensions are increasing in the workplace because of growing pressures on business in Britain's economic recovery, Acas, the independent conciliation and arbitration service, warned yesterday, writes Robert Taylor.

The service said the number of conciliation cases had

reached record levels for the third consecutive year. There had been a 4 per cent rise in such cases to 75,181 from 72,166 in 1992.

"If not channelled into creative ends, these tensions could increase the level of conflict. Often during 1993 managements were compelled to

deal with immediate pressures rather than managing change in a positive way. In such situations tensions were almost inevitable," it said.

Mr John Hougham, chairman, said: "Industrial tribunal work shows no signs of any downward trend. We remain very busy."

In 67 per cent of cases a settlement was reached or an application to an industrial tribunal withdrawn. Only one in three cases proceeded to an industrial tribunal. As many as 82 per cent of cases concerned unfair dismissal. There were 1,852 race discrimination cases, the highest ever and a 6 per

cent increase from 1992. Sex discrimination cases totalled 5,772, six fewer than in the previous year.

The government has announced that Acas's budget is to be cut by nearly 15 per cent over the next four years from £23m in 1993-1994 to £20m in 1996-1997.

Locked in a poisonous embrace

We should never have expected enlightenment. British election campaigns have long since lost the central democratic purpose of illuminating the choices before the electorate. That sort of politics is too complex for a generation weaned on the tabloid press and the 15-second television sound-bite.

But even by the standards of the recent past, the European election campaign has been an unedifying spectacle.

Around the country, candidates for the Strasbourg assembly have dutifully knocked on doors, climbed on to platforms in village halls and picked up babies in market squares.

But at a national level the campaign has produced an entirely predictable game of charge and counter-charge in which important issues have been trivialised and trivial issues elevated.

So far the voters have been offered a synthetic dispute about the national veto, a protracted row over begging and a fruitless argument about the definition of federalism.

Other, real European issues have occasionally intruded - the social chapter, the path towards a single currency, the shape of Europe's future defence among them. But the tactics adopted by all three parties have ensured that

rational debate is minimised in favour of cheap sloganeering.

So nobody one should be surprised if, once again, the great mass of the electorate decides on June 9 that there is nothing, or nobody, worth taking the trouble to vote for.

The Labour campaign understandably has lacked focus. The death of John Smith left the party's leading figures preoccupied with his succession.

In any event Labour has yet to work out the difference between a strategy of attacking the Conservatives for leaving Britain in Europe's slow lane and a discriminating approach to the policies of other European Union governments.

After some initial slip-ups, Mr Paddy Ashdown's Liberal Democrats have looked effective in promoting themselves as the party to beat the Conservatives in the south-west. But like Labour, the party has been wary of sounding too positive about Europe. It has looked more comfortable attacking Mr John Major on domestic policy.

On a technical rather than intellectual level the Conservative campaign cannot be faulted. The strategy has been to prevent a bad result from turning into a catastrophe. The judgment from the outset was that the party needed to counter the disgruntled apathy of its hard-core supporters.

The instincts of these voters are those of the Tory Eurosceptics. They are reflex chauvinists, suspicious of most things foreign and of all things emanating from Brussels. They believed Baroness Thatcher when she told them that a Britain free of the shackles of Europe could rediscover its past greatness. Coincidentally they also favour a hard line against beggars.

To win them back, the Conservatives concluded their best role in this campaign was not that of a government but of an opposition party. The central message has been constant: Mr Major would persuade the Europeans from doing that, would veto this, and would opt out of whatever else proved unpalatable.

If Conservative Central Office is to be believed, the strategy is working. Even those Tory MEPs who find the focus of the campaign distasteful are acknowledging that many of the punters like what they are hearing.

It is against this backdrop that Mr Major sketched out the possibility of a multi-speed, multi-track Europe. This so-called variable geometry - a ghastly phrase first uttered in public by Mr Douglas Hurd, the foreign secretary - would

allow a wider, more flexible union to operate with the grain of public opinion.

All would participate in core activities such as the single market. In other areas - defence, monetary union, social policy - individual nations would choose whether or not to enhance co-operation.

It is an idea with merit. In some respects it is a reflection of the status quo. In any event the cohesion possible among 12 states will not be so once it becomes a union of 20.

But the context and tone in which such arguments are framed are as important as the actual words. In Mr Hurd's multi-speed Europe, Britain would play a positive part, setting the pace of co-operation in defence and foreign policy.

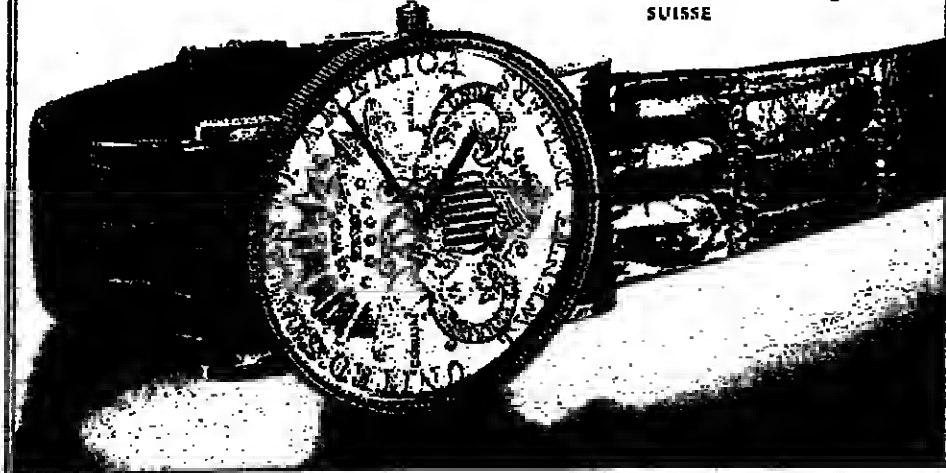
Mr Major, locked in the poisonous embrace of his party's Eurosceptics, appears more interested in opting out than opting in when the union reshapes its future in 1996. The national veto - threatened by nobody in Europe - has become a virility symbol.

The prime minister is right to argue that Europe has changed during the past few years. But scoring easy points with Essex man sits uneasily alongside a pledge to keep Britain at the heart of Europe.

Philip Stephens

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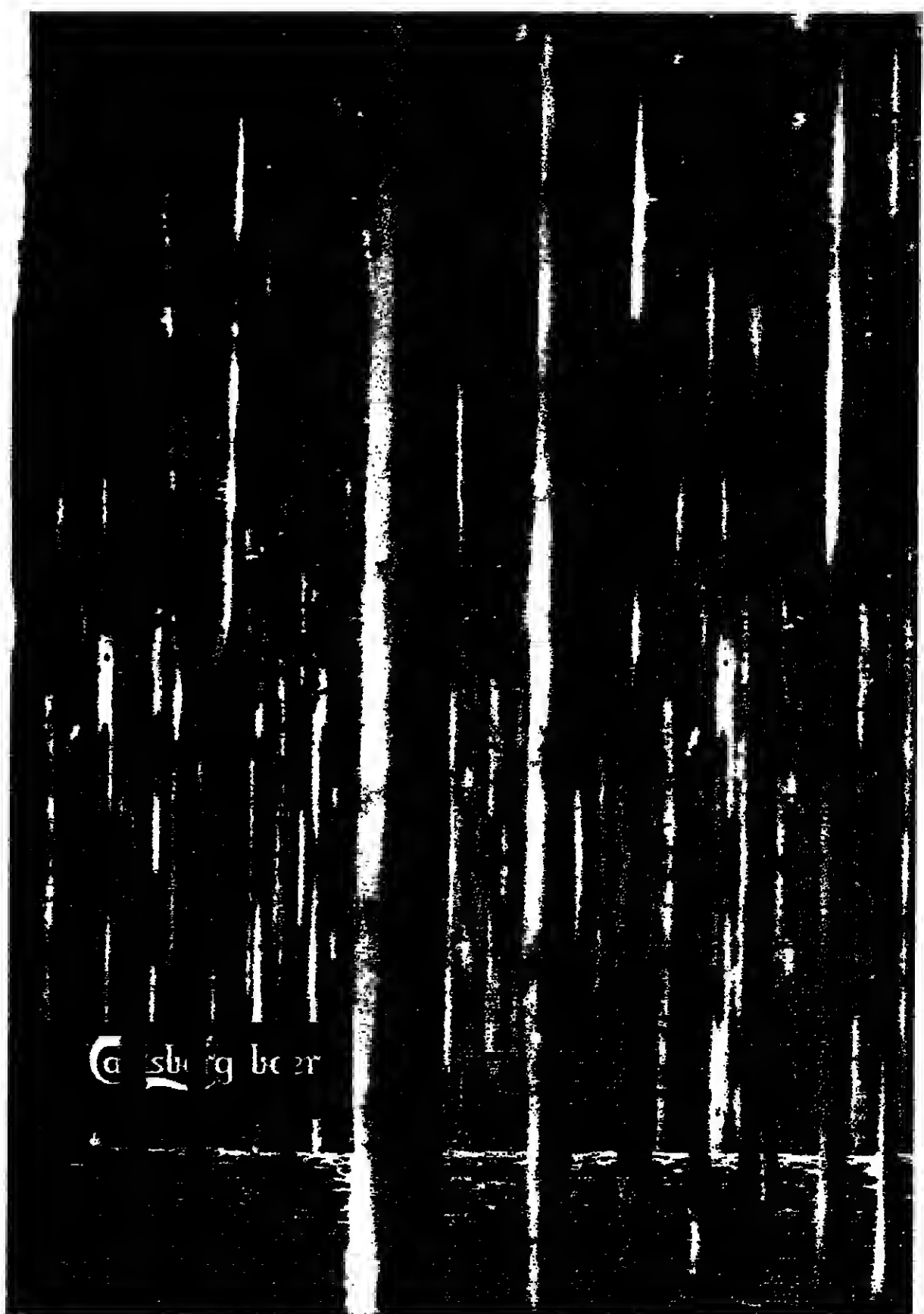
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For more information on editorial content and details of advertising opportunities available in this survey, please contact:

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Carlsberg beer

MANAGEMENT: MARKETING AND ADVERTISING

Freebies through the door can exert a powerful influence on consumers. Diane Summers reports

Sample the soap, buy the brand

Selling soap does have its glamorous side - at least that is what the advertising agencies claim. The current television campaign which heralds the UK launch of the soap powder Persil Power "captures all the drama, suspense and intrigue of a big epic movie", enthuses agency J Walter Thompson.

Radio-controlled puppets, specially-composed music and a 60ft-by-100ft model village, have all gone into the advertisement for the product which recently found itself at the centre of a row between its creator, Unilever, and soap war rivals Procter and Gamble.

But while the Titans clashed, and the TV "epic" was completed and then beamed to a waiting nation, a far more prosaic marketing exercise was also beginning. Thousands of meo and women were being recruited to deliver free samples of Persil Power door-to-door so that consumers could actually try the stuff.

One of the largest sampling programmes ever attempted, it is estimated that more than two-thirds of all UK households will receive trial packs of the soap powder over the coming weeks. Sampling, says Ed Lyons, the marketing manager in charge of the project, is central to the soap powder's £25m launch campaign.

The challenge is "to ensure that the highest levels of awareness and interest are created and then converted into brand trial", he says.

Sampling gives consumers "the all-important opportunity to experience the brand and judge for themselves that the promise is delivered".

There is evidence that, for consumers, sampling is rated above all other forms of marketing communication, according to the Human Factor, a consultancy which has conducted market research for the

who prides herself on seeing through all the wiles of the advertiser.

"The sample appears more in the nature of a gift - something for nothing - and the recipient seems to feel a more personal gratitude and pleasure than is inspired by most other forms of media activity."

Consumer enthusiasm is markedly stronger for genuinely "free"

whether they purchase, "easily outweighing advertising, money-off offers, or couponing".

Nick Wells, sales and marketing director of Circular Distributors, the company which is carrying out the Persil Power door-to-door deliveries, estimates that sampling has grown five-fold in the UK over the past decade, with a total of about 250m samples delivered through the door last year. While volumes have increased, the sophistication of sampling techniques has also developed since the 1950s, when the first exercise, for Omo soap powder, was carried out.

There are two basic methods of sampling: letterbox and personal call. The first is suitable for items, which fit through the door and are non-toxic (there are Advertising Standards Authority rules to protect against, for example, children picking up and eating samples of household cleaning products). The samples may go out on their own or be delivered with other items, which makes the exercise cheaper. CD

'Sampling is the only form of unsolicited communication which is received without suspicion or annoyance'

two leading sample distribution companies, Circular Distributors and MRM Distributions.

Elaune Hunt, research director, says: "Sampling is the only form of unsolicited communication which is received without suspicion or annoyance. Psychologically, sampling creates an unusual climate in these days of the cynical consumer,

samples, rather than those which require the consumer to expend effort or cash.

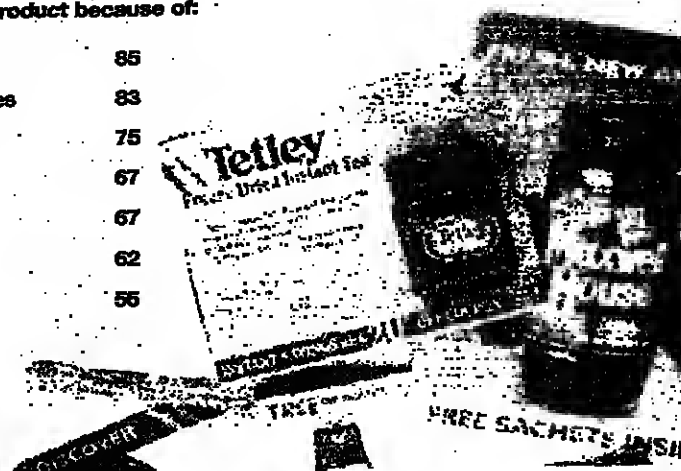
The acceptability of a freebie is hardly surprising, but does sampling actually work? Hunt says that both for new products and those that have been around for some time, consumers cite sampling as the most powerful influence on

What influences the buyer?

% Claiming to have bought a new product because of:

Free sample to try	85
Recommendation by friends or relatives	83
Money-off offer	75
Television advertisement	67
Saw in a shop	67
Money-off coupon or voucher	62
Advertising leaflet through the door	55

Source: MRM, The Human Factor 1993



says it would charge about £17 per 1,000 for the delivery of 30g samples if they were delivered with other items, while "solus" distribution would cost about £35.

Personal call sampling costs about 10 times more, says Wells. Delivery staff ring at the door and ask the householder questions to establish whether they have a use for the sample before handing it over. This helps cut down waste by ensuring, for example, that dog food only goes to dog owners. But the personal call also provides an opportunity for market research data to be collected, coupons to be handed out or a database of customers interested in future

promotions to be assembled. MRM Distributions is even experimenting with the direct input of data on the doorstep, using laptop computers.

Wells's tips for sampling success include: make sure, if it is a letter-box delivery, that the sample is strong enough to withstand the family dog, make the packaging look as much like the real thing as possible; and avoid looking mean with samples which are too small to allow a proper trial.

Sampling would rarely be used in isolation, says Phil Annett, oew products marketing manager for Cereal Partners UK, the joint venture between Nestlé and General Mills. He is particularly interested in targeting children for many of

the company's oew product launches, which have included the cereals Golden Grahams and Lucky Charms. As well as door-to-door sampling, Cereal Partners looks for distribution at toy shop checkouts and with doorstep milk deliveries. "If you can do it through a third party it adds endorsement," says Annett.

Sampling is unlikely to be effective on its own, says Annett. "We believe it should be used as part of a programme which includes advertising and promotion. But it is the ultimate form of product communication - actually to receive and taste the product. You can only do so much on television," he concludes.

Number fever leaves Pepsi drinkers cold

Victor Mallett on why 349 was so unlucky for the drinks company in the Philippines

Albert Yeban lives in hope. Yeban, who works in the canteen at a Manila golf club, has nine Pepsi-Cola bottle tops with "349" printed on the underside.

That number was announced as a winner in a Pepsi promotion in the Philippines two years ago, and Yeban reckons his bottles tops are worth a total of 4.4m pesos (£108,000) in cash prizes. He has joined a group of thousands of other 349-claimants and is hoping that an American lawyer will be found to win the money for him in a court case against PepsiCo in the US.

PepsiCo wishes it had never heard of 349. In one of the more ill-fated announcements in marketing history, the oomber was declared a winner on May 25 1992, at the height of a highly successful "under the crown" promotion called Number Fever.

Printed on each bottle top was a three-digit oomber, a sum of prize money to be won if the oomber turned out to be a winner.

and a security code.

Such was the campaign's success in its first three months that it had been extended for a further five weeks. Unfortunately for Pepsi, and for thousands of Filipinos who thought they had become peso millionaires overnight, the number 349, chosen by a computer as a winner in the second stage, turned out to be a common non-winning number from the first stage.

There were no fewer than 800,000 bottle tops imprinted with 349, of which half carried 1m peso prizes. Pepsi-Cola Products Philippines Inc (PCPPI), 19 per cent owned by PepsiCo, could not possibly pay; the sum would amount to more than \$15m, dwarfing the £48m lost by Maytag, parent of Hoover of the UK, in its disastrous "free flights" offer to

boost sales of vacuum cleaners.

Amid angry demonstrations in which several people were injured and Pepsi trucks were vandalised, Pepsi officials explained that there had been a "computer glitch" and insisted that only 349 oombers (in other words those from the new series) would be honoured as winners.

PCPPI decided to pay each "old" 349 crown holder 500 pesos as a goodwill gesture, an offer which cost the company \$10m, in addition to the \$4m of prize money and advertising spent on the whole campaign.

But many Filipinos, including Yeban, refused to accept the offer, joining pressure groups such as "Toilet 349" and "349 Consumers Organisation" that have sought

payment in full and tried to keep the issue alive in the Philippine courts and in the media.

Claimants also believe that wealthy PepsiCo in the US is a better target than its relatively insignificant affiliate PCPPI. One group has sought help from Robert Swift, a US lawyer who helped to win a class suit (a case brought by a class of people who share a grievance) in Honolulu on behalf of 10,000 victims of the regime of the late dictator Ferdinand Marcos; the jury awarded \$1.2bn from the Marcos estate to the victims, although the money has yet to be paid.

Vicente del Fierro, a former advertising executive who heads another group called "Coalition 349" from a house in the Manila suburbs, says he represents 3,000

of the 349ers. "It's about third world countries being exploited by multinationals," he declares, saying he is on a "crusade for justice" over the company's "deception" and "malice".

Del Fierro charges the 349ers an annual fee and says he plans to file a class suit in the US against PepsiCo, although Jeffrey Glen, the New York lawyer with whom he is in contact, says that his company Berwin Leighton has done only "a little preliminary work" and that no decision has been taken on whether to pursue the matter in the US.

In the Philippines, which inherited a habit of litigiousness from the US, its former colonial power, more than 15,000 cases have been filed against PCPPI, but almost all have been dismissed.

In one case earlier this year, a provincial court ordered the company to pay 1.1m pesos to a 21-year-old claimant, but the judgement is being appealed.

PepsiCo - as keen to distance itself from the 349 affair as claimants are to implicate it - says Number Fever was "a local promotion". There haven't been any suits filed in the US, according to Ken Ross, PepsiCo's vice-president for public relations. "It's not the proper venue."

During Number Fever, Pepsi increased its share of the soft drinks market in the Philippines from 19 per cent to 25 per cent, luring customers from the dominant Coca-Cola brands and smaller local manufacturers. After the 349 fiasco, however, Pepsi's share plunged to 16 per cent.

Now the company's market share is recovering, although Pepsi-Cola itself, perhaps because it is identified by name with the 349 affair, has not done as well as non-cola drinks such as 7-Up or Mirinda. Pepsi says sales in the Philippines rose 40 per cent in the year to April, and market share is back to about 20 per cent.

Filipinos say they are great ones for forgiving, whether it involves political enemies or companies such as Pepsi. Asked about Pepsi, one Manila stockbroker said: "We even forgave Imelda [Marcos's notoriously extravagant wife] and let her stand in the presidential election."

PepsiCo, locked in combat with Coca-Cola for dominance in Asia's fast-growing markets, is keen to lay the 349 controversy to rest. "The vast majority of consumers in the Philippines understand that this was an honest mistake," says Ross. "A small but vocal minority of people have chosen to pursue the matter. That's their right and the matter is in the courts."

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7th hour	per kWh	10.15
8th hour	per kWh	10.15
9th hour	per kWh	10.15
10th hour	per kWh	10.15
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16th hour	per kWh	10.15
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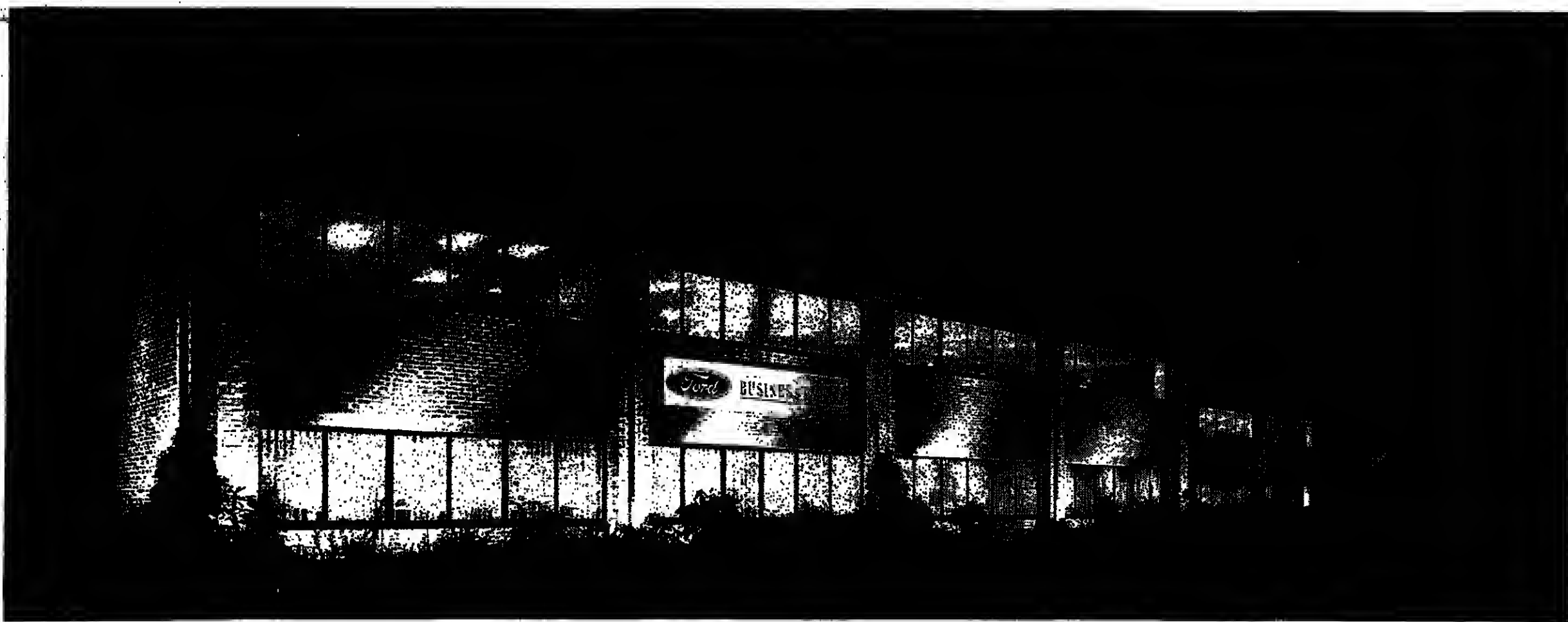
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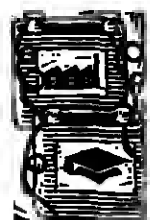


BUSINESS SOLUTIONS

TECHNOLOGY

Christopher Brown-Humes concludes a series on research by looking at the links between industry and academia in Sweden

An adjunct to success



Hakan Mogren, president of Astra, last week launched a wide-ranging assault on the state of the country's research industry. There were too few qualified researchers in Sweden, he said. The education system was insufficiently geared to industry. Astra was increasingly having to locate research capability abroad.

Mogren, one of the country's most respected business leaders, should know what he is talking about. Not only is Astra the country's biggest company judged by market capitalisation, but it has done as much as any Swedish company to foster links between industry and academia.

Is the picture fair? Sweden spends 2.9 per cent of its annual GDP on R&D, a level which puts it towards the top of the world league. It also has a well-developed framework for contacts between industry and universities. Is it simply that the country is not getting value for money? One must first consider the distorted structure of Swedish industry. The big multinationals, where the country's industrial strength is concentrated, have built up good contacts with universities. They are led by Astra and Pharmacia in pharmaceuticals, Ericsson in telecommunications, ABB in engineering and the vehicle groups Volvo and Saab. But Sweden does not have enough medium-sized companies and it is at this level (and the small company level) that contacts are much less well developed.

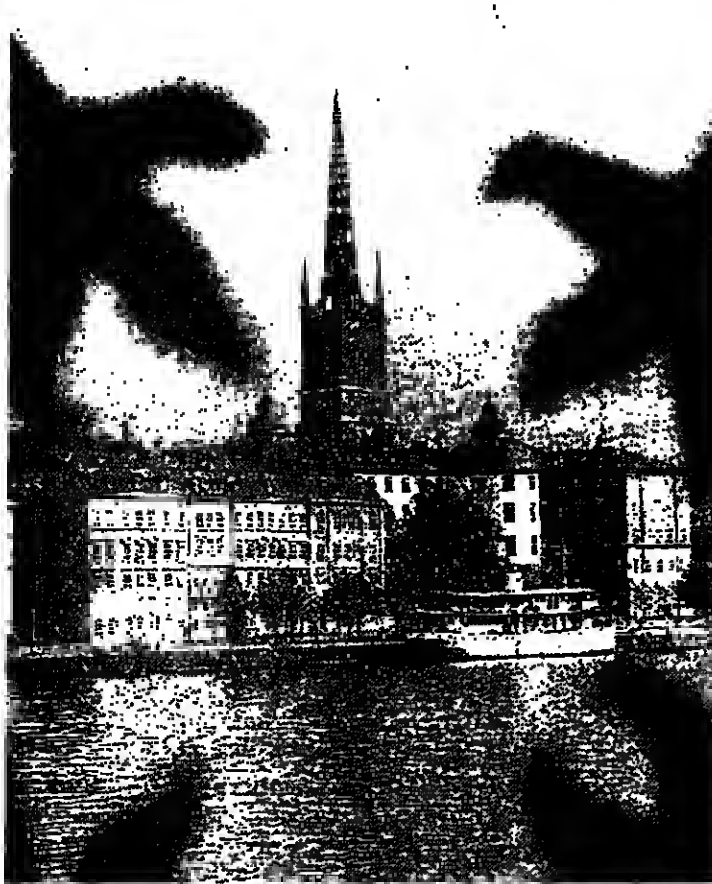
Camille Møder, a director of the Federation of Swedish Industries, says: "The problem in Sweden is not lack of ideas. The problem is lack of possibilities to develop them." She attributes the lack of entrepreneurial activity to a cultural and political environment which has favoured development of the welfare state and eschewed risk-taking for the last half century.

Turning the situation round will not be easy. For Møder, a key priority is getting more people with PhDs into industry and particularly into small and medium-sized companies. Møder also says Sweden must make more use of its research. Academics have not always been commercial enough in their approach, stopping "when they have had an article printed in some distinguished scientific journal".

It is not that Sweden is short of mechanisms for promoting collaborative research, nor does it lack private-sector funding. More than 60 per cent of R&D expenditure is financed privately, with the government accounting for 35 per cent. It also has the advantage of being a small country where people tend to know everyone else in their field.

A system of "adjunct professorships" is one way the cross-fertilisation works. An adjunct professor will typically spend 80 per cent of their time with a company and 20 per cent at a university.

But adjunct professors are just one strand in a web of industry and academic ties embracing science



Changing the climate: Sweden does not lack ideas, just ways to develop them

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ships and stresses physical proximity to academic centres not just in Sweden but abroad. It already has four overseas centres - in Montreal, London, Bangalore and Brisbane - and plans to expand to six. At the University of Montreal, Astra is looking to tap the institution's specific expertise in the field of pain research and it talks of having a unit of up to 100 researchers there eventually.

Wilhelmsson says that only by having a large number of small units working in different areas will Astra get access to the broadest possible range of new ideas for treatment. Besides, he argues, small decentralised units are more innovative and creative than big ones encumbered by bureaucracy.

But he accepts there are drawbacks to the approach. One is duplication of cost. The other is the risk of commercial secrets leaking out.

Ericsson also stresses academic contacts, although Bengt Gällmo at the group's university liaison office cannot link one specific product directly to the collaboration. "We wouldn't get a complete product from a university system. What we would get is a solution to a particular problem," he says.

In Sweden, Ericsson has developed close ties with the Chalmers University of Technology in Gothenburg and Lund University. Abroad, it has set up laboratories near universities in Germany, the Netherlands, and North Carolina.

The contacts with Lund are a good example of the way collaboration has worked to the advantage of both parties. A few years ago, Ericsson decided analogue electronics were being neglected and established an adjunct professorship in the field at Lund. The move helped attract PhD students to the university. The professor took on a full-time role at Lund and was hired back by Ericsson as a consultant. The relationship continues today.

Gällmo says Ericsson is big enough to build up its own relations with universities. But he thinks links between Swedish industry and research centres are "generally rather weak", particularly at the level of small and medium-sized companies.

Other articles in this series appeared on April 14, 21 and 28th and May 5, 12, 19 and 26.

Good ideas stay out of the drain

Andrew Fisher reports on a programme which aims to close the gap between inspiration and profit

In the endless debate about British industrial performance and its gradual decline relative to other countries, there is rarely any complaint about a shortage of ideas. The problem lies not so much in inventiveness as in the ability to make money out of new products and technologies.

"We're actually a small and very inventive country," says Sir Ronald Oxburgh, rector of Imperial College of Science, Technology and Medicine, part of London University. "It could be argued that we're almost too inventive for our own good."

Whether the fault lies in lack of money, a cultural and educational bias against industry or an unwillingness by enough companies to take risks, there are numerous examples of UK ideas that have been successfully exploited abroad.

To help close the gap between inspiration and eventual profits, Imperial College has embarked on a venture which it believes is unique among British universities.

Called IC Parc, it is a partnership between Imperial's own research staff and resources and companies such as British Airways, British

Telecommunications and ICL (the UK-based computer subsidiary of Japan's Fujitsu). Its purpose is to find solutions for the complex computer needs of its clients stretching into the next century. Barry Richards, director of IC Parc and professor of computing science at the college, says it was set up "to remove the problem of a good idea which doesn't go forward".

IC Parc works on medium-term problems - such as complex aircraft scheduling for BA, data delivery for the videoconferencing and other visual broadcast services planned by BT, and telebanking (with text stored digitally) - which companies understand but need extra help to solve. "IC Parc is seen as addressing the task of ensuring that ideas don't go down the drain or across the Atlantic," he adds. It focuses on the development

of advanced software in areas of vital importance for future applications of information technology planning, scheduling and decision support.

Launched last month and arising out of Imperial's computer forum linking academia and industry, it stresses the establishment of strong relationships with the partner companies, which it calls technology clients.

Catherine Griffiths, a research fellow at IC Parc, says the forum showed "companies had special needs that were not being addressed". Their problems were of a complexity that could not be simply solved by consultants. Solutions have to be developed in such a way that they can be integrated easily into companies' - as a planning rather than a computer department - makes a tremendous difference for the senior managers in the airline by helping them understand what is on offer."

For BA, IC Parc offers the opportunity to schedule aircraft in an even more complex way than at present. "We have enormous assets in our aircraft," says Teather. "A small percentage rise in aircraft utilisation can save money and help us deliver customer service better."

If aircraft have to be rescheduled because of bad weather, for example, the new software systems being developed at IC Parc could enable BA to do this more efficiently by taking into account a greater range of factors (including other flight schedules and passenger connections) than at present.

"This offers potentially the next step change in how to tackle planning problems," he says. "It should allow us to do what we do now more generally - to do it on a bigger scale." Teather hopes such software solutions can also be applied to other scheduling tasks such as the deployment of maintenance staff in airports.

There are complicated scheduling problems for which IC Parc is in a position to provide general solutions as opposed to specific home-grown ones which can be expensive and need lots of changes to meet different situations," explains Teather.

The question of scalability is a big problem in innovation, not just in the IT field. What works in a limited environment may not translate easily to the wider practical world.

Sir Ronald recalls from his days as chief scientific adviser with the Ministry of Defence that some of the biggest problems arose with software. Systems which worked beautifully in small-scale demonstrations could throw up new problems when developed on a much bigger scale. "You're building systems that are too big for individuals to get their minds round," he says.

BA, for example, knows it will be scheduling aircraft in the future, says Griffiths. "They want to know how to do it better; they want to build on the need that they have." Bill Teather, BA's head of information management, is enthusiastic about IC Parc's potential benefit for the airline and other companies.

"For a university to organise itself so it can present a business-oriented front to business

differing organisations.

"Some companies are very clear about their problems," says Richards. "In other cases, they say 'we know broadly what we want to achieve in the medium term but we're not clear how to do that'. It's one thing to conceive what technology might be useful and another to make something out of that technology and work out how to apply it. You have to know the company very well and assess the likely impact."

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"For a university to organise itself so it can present a business-oriented front to business

PEOPLE

Holder moves up at General Accident



James Dawney (above), a former head of Mercury Asset Management's unit trust operations, is starting to put his stamp on the unit trust operations of Martin Currie, the Scottish fund manager that he joined a couple of years ago.

Dawney, 47, has taken over as chairman of Martin Currie Unit Trusts, replacing Michael Kennedy, 58, the chairman and chief executive of the privately-owned Martin Currie group. Kennedy remains on the unit trust company board but is starting to hand over some of his responsibilities as he approaches retirement.

Sandy Dudgeon, 37, amateur jockey and former deputy managing director of Adam & Co., the Edinburgh private bank, has been brought in to replace Alan Maitland, 58, who retires as managing director of Martin Currie's unit trust business in September. George Tsergas, 48, who joined Martin Currie last year after nine years with the Fidelity fund management group, has been appointed sales director.

Since Dawney arrived at Martin Currie, which has 14bn under management, he has been involved in building up the group's overseas institutional business. He now intends to devote more time to its unit trust business which has doubled in size over the past couple of years, to £430m. Dawney says it is still too small and hopes to double its size again in three years.

Martin Greig and Yvonne Savage have been appointed to the board of HODGSON MARTIN.

John Ras has been appointed vice-president in BANK OF AMERICA's export finance group; he moves from Cypriot Mortgage. Brian Friess, formerly operations director of Schroder Unit Trusts, has been appointed a divisional director of MARLBOROUGH MANAGEMENT GROUP.

Barrie Holder, 48, General Accident's finance director, has been appointed a deputy chief executive. This increases speculation that he might take over as chief executive of Scotland's largest insurer when Nelson Robertson, 60, retires. Holder, a Yorkshire-born accountant, joined GA in 1987. He spent a year in New Zealand in 1989 sorting out GA's expensive acquisition of New Zealand Insurance. He is the group's finance director and has now added responsibility for the group's fast-growing life operations to his portfolio. Australian Bob Scott, 52, who has been responsible for reorganising the group's sluggish UK business, has also been appointed a deputy chief executive. His responsibilities have been extended to include the international division. Although Scott only joined GA following its 1987 takeover of NZI, his rapid promotion suggests that he has impressed the group's traditionally conservative directors.

Meanwhile, New Zealander Russell Evans, 55, another NZI veteran who is now in charge of GA's corporate planning, has been appointed a general manager. GA Life's general manager, Bill Jack, a 48-year-old Glaswegian, has been appointed general manager (life) of the parent company.

Grant Baird, the former chief economist of the Royal Bank of Scotland who for the past three years has run Scotland Europe, which represents Scottish organisations and businesses in Brussels, is returning to Edinburgh.

He is to become executive director of Scottish Financial Enterprise, the private sector body which promotes the financial community.

Baird takes up his post in September, when James Scott, a former senior Scottish Office official who has directed SFE since 1991, steps down. SFE was founded in 1986 to bolster the Scottish financial community when London was

blowing its trumpet in the run-up to Big Bang. Its 220 members include all the major banks, life assurance companies and fund managers north of the border, as well as providers of professional services.

John Strudwick has been appointed client services director of Club 24, part of NEXT.

John Patterson has been appointed to the new position of director of operational performance for BRITISH AIRWAYS.

Michael Averill, group chief operating officer, has been appointed to the board of SHANKS & McEWAN.

Ian Burton has been promoted to md of NATIONAL TRUST Enterprises.

Ford puts Gillitzer in the hot seat

Ford, basking in the success of Michael Schumacher and his Benetton Ford in grand prix, and enjoying something of a renaissance in European touring car racing and rallying, has created a new top motorsport post. It is aimed at giving long-term strategic direction to one of the car industry's most valuable marketing tools.

Perhaps surprisingly, the chosen candidate is not a dyed-in-the-wool career motorsport figure but a 55-year-old former product planner and design and development engineer, in the form of Australian Peter Gillitzer.

He has had just three years' of motor-racing experience, as manager of Ford's motorsport programme in Australia, where



he had previously been responsible for bringing a Mazda-based two seater, the Capri, to market.

Gillitzer's task will be to evaluate and advise where and in what categories Ford should be competing in order to maximise the promotional benefits of competition.

Gillitzer, who will be reporting directly to Ford of Europe vice-president of marketing Ingvar Svigum, did not have a great deal to celebrate when he formally started the job yesterday - less than 24 hours earlier Ford had only managed to come fifth in the Acropolis rally.

Non-executive directors



John Kemp-Welch (above), chairman-elect of the Stock Exchange and former senior partner of Cazenove, at SUN ALLIANCE GROUP and Sun Alliance and London Insurance.

Richard Giordano, chairman of BOC and British Gas, has resigned from LUCAS INDUSTRIES.

Sir Geoffrey Holland, former permanent secretary at the Department for Education, at SHELL UK.

Kathleen O'Donovan, finance director of BTR, at ARDAGH.

Sir James Ball and Lord Peter Rees have resigned from LASHCO.

David Watken, former chief executive of Hamco, at OPTOMETRICS CORPORATION.

George Hayter, deputy chairman of Unipalm, at PEGASUS GROUP.

Sir Anthony Tuke and Sir Thomas Risk have retired from THE MERCHANTS TRUST.

Peter Harvey as chairman at PLASMEC; he is therefore resigning from DENSTRON INTERNATIONAL.

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Cinema/Nigel Andrews

Turkey feathers to tickle our fantasies

There is a funny joke in *The Secret Rapture* about the difference between erotic and perversed sex. In the first, gurgles raconteur Joanne Whalley-Kilmer to a trio of tired business colleagues in a bar, you use a feather. In the second you use the whole chicken. Hilarity all around. Then seconds later Miss W-K is lunging across the table with a steak knife, trying to stab First Businessman.

It is that kind of film. Gestures and apocalypses come from nowhere. David Hare's stage play was an odd, feathery thing. Addressing matters such as grace, faith and the quality of life, it made attractive tickling motions in the direction of our consciences. The film, by contrast, is a turkey, a whole turkey and a plucked turkey. And since this turkeyisation process has happened to Hare before - when *Plenty* moved from play to film, and when *Paris By Night* and *Strapless* trailed clouds of staginess on to the screen - we should ask: What is going wrong?

The Secret Rapture has one of those plots, full of designer metaphor, that one accepts while sitting in the hothouse of a theatre. An old bookseller has died, leaving his two daughters to cope with the dear old farmhouse and the dead body of his widow Catherine (Miss W-K), a sort of Hell's Angel on heels, youngest daughter Isobel (Juliet Stevenson), good and kind, runs a small graphic design shop; older daughter Marion (Penelope Wilton), more venal, is first caught trying to reclaim a ring from dead Dad's bedside.

But there is one thing that plays can get away with and films cannot. Circumstantial vagueness. We do not expect the stage to rotate 45 degrees towards us, exposing the designs on top of Isobel's worktables. But in a movie we ask: "What are these people designing?", apart from the single lurid book-jacket being worked over by Isobel's partner-boyfriend (Neil Pearson). So when well-behaved Marion buys into the firm and tries to expand it with happy Catherine's help, we are meant to cry "Tsk! Tsk! Do not sell out, Isobel!" but instead we feel, "What a good idea." Perhaps the film will now take on a graspable identity.

More vagueness: Penelope Wilton's Marion, who clarin-announced herself as a Tory minister in the play, here seems vocally less specific. And her husband, a lay preacher on stage full of chorle-some pieties, is played by Alan Howard in the movie as an odd, mank bird with a crack in his neck and few lines of dialogue. Director Howard Davies pushes



Strong on style but weak on content: Juliet Stevenson and Joanne Whalley-Kilmer fail to light any fires in 'The Secret Rapture'

THE SECRET RAPTURE (15)
Howard Davies

NO ESCAPE (15)
Martin Campbell

DANGEROUS GAME (18)
Abel Ferrara

INTERSECTION (15)
Mark Rydell

bits of style at Hare's screenplay as if hoping that they will peck it into life. A moment of emotion produces a tilted angle. A love scene stripes two bodies with Venetian-blind shadows.

But when a bird is dead, as Monty Python proved, no amount of shock treatment can help. Plucked of its

wit and thrust into the "real" world, the movie schematic of Hare's play seems trite and sanctimonious. Hold on to that cottage industry. Hing that parental farmhouse (shades, say swatches, of *Howards End*). And cherish the mentally distressed, who might be well-intentioned (Catherine), while shunning the mercantile (Marion), who cannot be.

Nothing is more dopedly conservative than some writers with left-wing sympathies. People often ask why British films cannot get their act together.

The reason is that modern British cinema, like so much modern British life, is one long apology *pro sua vita*. "We have never had it so bad." And (corollary) "we shall never have it so good again". Unless, quoth Hare, we put a moratorium on all that might expand people's lives, ambitions and imaginations and thereby threaten

light little, green little England.

Now a much-needed change of scene. "The nearest airport is 2,000 miles away," says the doctor (Ian McNeice) on the tropical island in *No Escape*. We have all known holiday spots like this, but "Absolute" is an atoll of a different aspect. Even though the jokey convicts' leader (Stuart Wilson) says "Welcome to vacation paradise" to the newly arrived hero (Ray Liotta) - and Liotta, picking up the mood, replies "Hope you take plastic" - this is a futuristic penal colony (year 2022) where torture, riot and sudden death are rife.

Can Liotta, sent here after threatening a previous warden with an electric cattle-prod, escape - or at least find a more pleasant part of the island? He does the latter, falling down a mile-high cliff into a river from which the Good Con- victs, led by white-haired father fig-

ure Lance Henriksen, rescue him. But will Wilson pursue and avenge?

The film is a re-tread of *Papillon* with camp dialogue, wild scenery and costumes that look as if they were designed by Mad Max's aunt. Present is a platoon of British actors, led by Wilson and McNeice, playing the nasties and causing us to ask: What is it with Hollywood and the British? Can America not get one of its own kind to curl a lip, quiver a nostril and deliver a well-egged epigram? Perhaps not. Wilson's jokes steal the movie.

Abel Ferrara's *Dangerous Game* used to be called *Snake Eyes*. But like last week's *Hostile Intentions* (US title *The Ref*) it has been re-baptised for Britain by the banal minds who do these things. No title, though, could do justice to this transportingly batty film about film-making from the writer-director of *Driller Killer* and *Bad Lieutenant*. An ear-

A change of scenery: Ray Liotta in the futuristic *No Escape*

nest Madonna and a more earnest James Russo act out a tale of marital hell before the cameras of fictive filmer Harvey Keitel.

Whose are the snake eyes? Perhaps Madonna's, but it is mostly too dark to tell on this soundstage within a soundstage. Or maybe they are Keitel's, who has long, writhing Medusa locks to match. The film replays the contest between vice and virtue that we saw in *Lieutenant* only with Madonna as the wife who is getting religion and Russo as the man burning out on sex and drugs.

No one seems more obsessed, though, than the man behind the camera, O.D.-ing on celluloid and Stanislavski-babble. Like any genius director Keitel wants more. "Smell her, Frank, smell her." "Dig down into hell, Frank." "Piss on the floor." The audience, on the other hand, wants less. But it has an eerie feeling that this is what life is like on a Ferrara set, and we might as well have the ugly truth while it is offered.

Intersection also comes from the world's psychodrama storage-room. Richard Gere takes the Michel Piccoli role in this Hollywood deconstruction of the 1970 French film *Les Choses De La Vie*. Mark Rydell (*The Rose*) replaces Claude Sautet in the director's chair, blowing warm air all over the tale of a man whose life is torn between two women and whose mind replays that life, in flashbacks, just as his car is about to be torn between two trucks.

Gere's past career as a Vancouver-based architect flashes before him. His affair with redheaded Lolita Davidovich flashes before him. And the blonde, curvaceous Sharon Stone flashes before him - but this is not *Basic Instinct*. Stone, playing Mrs Gere, gets to expose nothing lower than a quivering chin and a pair of Joan Crawford cheekbones. The film is minor but enjoyable.

Theatre

Acclaimed King Lear cuts the deepest

Trailing a wake of acclaim from last year at Stratford-upon-Avon, Adrian Noble's Royal Shakespeare Company production has reached London, still with Robert Stephens as the King.

The acclaim was deserved. If a "complete" representation of *King Lear* is a will-o'-the-wisp ideal, this one cuts deeper than most, and more consistently. No other that I have seen has laid the chill metaphysical bleakness of the play so bare, nor made so strong a case for recognising that as its central theme.

What do you want from a *King Lear*? If it is tender, heart-rending moments, Noble is brusque with those. On his view of the play, they would be sentimental cheats. Instead, all the lusty intrigues are set in a coolly distant (but beady-eyed) focus. The human twitchings and caving-in serve only to confirm Lear's ultimate discovery: that scarcely anything in this indifferent world matters much, nor suggests anything else for our consolation.

As a mere poetical message, that might ring dully; but Noble sees to it that all the dramatic action is superbly clear and vivid. Lear has a complicated story and leads inexorably towards the cruel final vision. Anthony Ward's designs reduce the earthy details to bare symbols, but his churning astronomical backdrops stress the inhuman grandeur of a "real", space-age setting. The experience is worth it, despite some calculated losses along the way. Nothing becomes Stephens' Lear like going mad. From there he expands into profound, shattered insights, hugely indulged by the production, and quite rightly. Earlier he has to play his King to daughterly stereotypes: Abigail McKern's Cordelia (dressed as a goody-two-shoes with pigtail and chaste tunic), Jenny Quayle's Regan (a sexy, overly bright-eyed hostess) and Janet Dale's anxious little Goneril, who looks like something between Goldie Hawn and the ex-lsington leader Margaret Hodge.

At the start, their daughterly effusions pretty speeches, every one (even Cordelia) is urged on by sympathetic chuckles from Lear's courtiers. It is shocking and irrational, then, that the King should reject Cordelia's plainer homage so violently, without warning; but such things do happen, and the play goes on to record much nastier twists among its personnel. Little by little the sharpest vicissitudes fade into temperate blues, because the overwhelming pointlessness of life swallows them up without naming favourites.

Along the way the RSC players supply vital flashes: David Bradley's Douglas Hurd-like Gloucester (grissy, decent and politic), David Calder's staunch old Kent, Ian Hughes' archly androgynous Fool, Mark Lockyer's repellently oily Oswald. Simon Russell Beale's saintly Edgar is perhaps elevated a touch too far. John Normington keeps his Albany down to a level of intense decency, and Owen Teale plays the bastard brother Edmund with expansive relish, while Simon Dornand taps an authentic, even psychopomp vein for his horrifying Cornwall. One way and another, the icy, colossal scale of the play makes itself felt as I have never met it before.

David Murray

Barbican Theatre, in repertory until August 30.

Opera/Martin Hoyle

Playing Away fails to score

Remember *Damn Yankees*? An American musical of the 1950s that enjoyed a Drury Lane run, it retold the Faust legend against the background of professional football.

Howard Brenton's libretto for Benedict Mason's opera *Playing Away* combines the Faust myth with football; not hard to do when most successful players look like madhosi. The musical's most diverting character was a temptress called Lola. Consciously or not, Brenton echoes this with another sultry Lola, the footballer-hero's wife. Alas, she has nothing so entertaining to sing as *What Lola Wants*, as immortalised by Gwen Verdon.

The direction by David Pountney, which won a prize for Opera North at the world premiere at the Munich Biennale a fortnight ago,

can be seen at the Grand Theatre, Leeds, this week and then in Hull, Nottingham and Manchester.

As a production it has all the theatrical audacity and exuberance of Pountney at his best. He turns an opera chorus into a mob of soccer rowdies charging into Munich (very self-referential, this piece) with the topical cry of "My team is fed on British beef!" He can, with Quany Sacks' choreography, depict the relationship between star player and anthropomorphic ball (soprano Nicola Sharkey in a plebeian body-stocking) as a tenderly manipulative ballroom dance. A hierkeller scene evokes those Germanicisms so wickedly caricatured in ENO's *Königskinder*. Like Huntley Muir's award-winning sets and costumes, the production deserved its prize.

The work itself is more problem-

atic. Brenton's libretto is too wordy for opera, especially with the company's less than perfect diction. After the acid test of seeing the piece without reference to cast or synopsis, I was startled to see I had missed a singing dachshund, not to mention the universal issues of morality, power-play and the unsuitability of women in the players' baths. The production's swish and style fails to disguise the episodic, undeveloped nature of the first half, or the delay in getting to grips with the Mephistophelean element until well into the second.

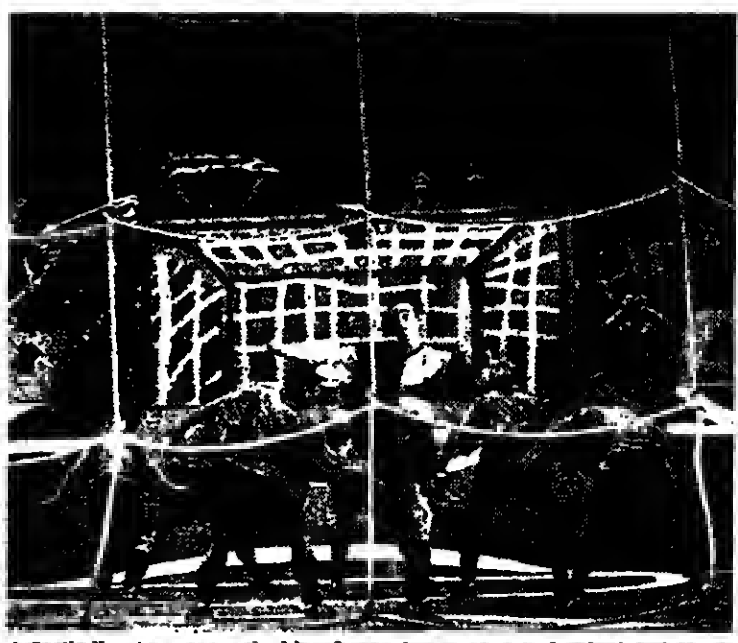
Mason's score is a cheerful kaleidoscope of allusions, quotations and parodies where the listener, however fleetingly, snatches fragments of everything from Humperdinck and Wagner to Bernstein and "The Stripper". Even Terry Bond, the

golden-boy of the pitch, suggests vulnerability with a stammer that recalls Billy Budd. Philip Sheffield makes the most of the one adequately characterised role, oddly resembling Tony Blair, who doubtless also has various diabolical parts to consider.

As a spectacle the work is fun, with its vivid if obvious depiction of tabloid hacks (who end up briskly copulating) and its excitingly choreographed soccer match.

But for the most part the characters remain tokens, fleshed out neither with words nor music. Richard Stuart as the manager could turn to juggling, soft-shoe shuffles or Gilbertian patter at the drop of a tribly; splendid stuff, but better than the work deserves.

Grand Theatre, Leeds.

A football extravaganza looking for goals: as a spectacle *Playing Away* is fun but as an opera it is far too wordy and episodic

INTERNATIONAL ARTS GUIDE

ATHENS

Megaron Tonight, tomorrow: Alexandros Myratis conducts La Camerata in orchestral works by Mozart and Tchaikovsky, with piano soloist Bruno Leonardo Gelber. Next Wed: first of four concerts by Orchestre National du Capitole de Toulouse conducted by Michel Plasson, including two performances of Berlioz's *Les Troyens* (01-728 2333/01-722 5511).

BERGAMO

The annual festival at Bergamo and Brescia runs till June 11 with an emphasis on the piano music of Bach, Mendelssohn, Schumann and Reger. Highlights of the final week include recitals by Alicia de Larrocha in Brescia on Mon and Bella Davidovich in Bergamo on Tues (Bergamo: 035-249631, Brescia: 030-375 7974).

BOLOGNA

Teatro Comunale The season ends with concerts tomorrow and

Sat conducted by Elisha Inbal, with a programme consisting of Petrassi's *Magnificat* and Ravel's *Daphnis et Chloé* (051-529999).

FLORENCE

MAGGIO MUSICALE Samyon Bychkov conducts the Maggio Orchestra tonight at the Teatro Comunale in Beethoven's Fourth Piano Concerto (Maria Tipo) and Shostakovich's complete ballet music for Pulcinella. Roberto Cominati gives a piano recital on Tues. Later in June there will be a Japanese operatic double-bill devised by Bob Wilson, concert performances of *Lady Macbeth of Mtsensk*, a MaggioDanza triple bill and a concert by the Dresden Staatskapelle under Sinopoli. The festival runs till July 1 (055-277 9236).

GENOA

Teatro Carlo Felice There is a final performance tomorrow of Lucia di Lammermoor, with cast headed by Mariella Devia. The next production is Leoncavallo's three-act opera *La reginetta delle rose*, opening June 14 (010-589329).

LONDON

THEATRE Rutherford and Son: the National revives Githa Sowerby's 1912 portrait of suffocating Victorian values. Bob Peck plays John Rutherford, a man obsessed with the running of his factory at the expense of all compassion. Katie Mitchell directs in the Cottesloe.

Opens tonight (National 071-928 2252).

● Murder in the Cathedral: Stephen Pinnott directs this new RSC production of T.S. Eliot's greatest play, inspired by the story of Thomas Becket. Opened last night (The Pit 071-638 8891).

● King Lear: Robert Stephens plays Lear in Adrian Noble's RSC production, transferred from Stratford. Just opened Barbican 071-638 8891.

● A Midsummer Night's Dream: the summer season in Regent's Park is now under way with Deborah Paisley's new production of Shakespeare's supernatural tale (Open Air 071-486 2431).

● Pericles: the National's new production of Shakespeare's magic epic is directed by Phyllida Lloyd, with Douglas Hodge in the title role. In repertory at the Olivier with Alan Bennett's acclaimed stage adaptation of Kenneth Grahame's novel *The Wind in the Willows* (National 071-928 2252).

● A Month in the Country: Helen Mirren is in dazzling form as the bored Russian housewife of Turgenev's languid masterpiece. Ends June 11 (Albery 071-857 1115).

● Arcadia: West End transfer of Trevor Nunn's National Theatre production of Tom Stoppard's complex but often funny drama (Haymarket 071-930 8800).

● Dead Funny: Terry Johnson's new comedy of sexual impotence has nudity, swearing, tension and bite. With Zoe Wamaker and David Haig (Vaudeville 071-928 2252).

OPERA/DANCE Covent Garden The Royal Opera has *Mosé in Egitto* with Ruggero

Raimondi (till June 11) and a new production of *Aida* with Cheryl Studer (first night June 16). The Royal Ballet has Don Quixote with Sylvie Guillem and Viviana Durante alternating as prima ballerina in Anthony Dowell's staging of the Baryshnikov production (till June 25). A mixed bill including MacMillan's *Winter Dreams* opens on June 18 (071-240 1086).

Coliseum ENO's new production of *Jenufa*, staged by Lucy Bailey and conducted by Sian Edwards, opens next Wed with cast headed by Susan Bullock, Josephine Barstow and Kim Begley. Repertory also includes Peter Grimes starring Philip Langridge and *Così fan tutte* with cast headed by Vivian Tierney (071-836 3161).

Sadler's Wells Washington Ballet presents two programmes next week, opening on Tues, with choreographies by Nils Christie, Monica Levy and Choo-San Goh (071-278 8916).

CONCERTS South Bank Centre Tonight: Krystian Zimerman piano recital.

Sat: Daniel Barenboim conducts Chicago Symphony Orchestra in first UK performance of Elliott Carter's *Partita*, plus works by Strauss and Brahms. Sun: Algerian Rai musician Cheb Khaled. Tues: Music Theatre Wales presents Peter Maxwell Davies' *The Lighthouse*. Wed: Murray Perahia piano recital. Next Thurs and Sat: John Eliot Gardiner conducts Don Giovanni (071-928 8800).

Wigmore Hall Sat: Nash Ensemble and baritone François La Rocx in an 80th birthday concert for Felix Arahmanian (071-935 2141). Barbican Sun, next Thurs: Kent

Nagano conducts LSO in two programmes with violin soloist Viktoria Mullova. Tues: Midori violin recital (071-638 8891).

MADRID

Teatro Lirico La Zarzuela Tonight and Sun: Odón Alonso conducts Emilio Sagi's new production of Emilio Arrieta's 1871 opera *Marina*, with cast headed by Alfredo Kraus and Ana Maria Gonzalez (01-429 8225).

Auditorio Nacional de Musica Tonight: Spanish National Chorus in contemporary Spanish works. Tomorrow, Sat, Sun: Antoni Wit conducts Spanish National Orchestra in works by Lutoslawski, Mozart and Musorgsky-Ravel, with piano soloist Ewa Pociolka (01-337 0100).

MILAN

Teatro alla Scala Tonight, Sat, next Tues, Wed and Fri: Giuseppe Sinopoli conducts Luca Ronconi's production of Elektra, with cast headed by Sabine Hass/Janis Martin, Reinhold Runkel/Hanna Schwarz and Horst Hiestermann. Tomorrow, Mon (with seven further performances till June 30): Riccardo Muti conducts Gilbert Delfo's production of Rigoletto, with cast headed by Leo Nucci, Roberto Alagna and Ruth Ann Swenson (02-7200 3744).

Teatro Nuovo Tonight, tomorrow: Ballet of La Scala in Roland Petit's *Tout Satie* (02-7200 3744).

NAPLES

Teatro San Carlo Tonight, Sun,

next Wed: Manon Lescaut with Miriam Gauci and Nicola Martinucci (081-797 2331).

ROME

Teatro Valle Tomorrow: Edita Gruberova song recital. Sat, Sun, Mon, Tues: Daniele Gatti conducts Orchestra dell'Accademia di Santa Cecilia in works by Tchaikovsky and Prokofiev, with mezzo soloist Olga Borodina (06-678 0742/06-6880 3794).

SPOLETO

This year's festival runs from June 22 to July 10. Highlights include a staging of Wozzeck by avant-garde German producer Günter Krämer and a Poulenc double-bill pairing his surreal opera *Les mamelles de Tirésias* with a reconstruction of Nijinska's original choreography for Les Biches. There will also be performances by Martha Graham Dance Company and Roland Petit's Ballet National de Marseille (Associazione Festival dei Due Mondi, Via Cesare Baccaria 18, 00193 Roma. Tel 06-321 0288 Fax 06-320 0747. Tickets can be bought at the Teatro Olimpico in Roma 06-323 4890 and at the Teatro Nuovo in Spoleto 0743-40265).

TURIN

Teatro Regio Edita Gruberova gives a song recital on Mon. The next opera production is *La Cenerentola*, opening on June 14 and running till June 30 (011-881 5214).

ARTS GUIDE

Monday: Berlin, New York and Paris.

Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.

Wednesday: France, Germany, Scandinavia.

Thursday: Italy, Spain, Athens, London, Prague.

Friday: Exhibitions Guide.

European Cable and Satellite Business TV (Central European Time)

MONDAY TO FRIDAY NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY NBC/Super Channel: FT Reports 1230.

TUESDAY EuroNews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY NBC/Super Channel: FT Reports 1230

FRIDAY NBC/Super Channel: FT Reports 1230

Sky News: FT Reports 0230, 2030

SUNDAY NBC/Super Channel: FT Reports 2230

Sky News: FT Reports 0430, 1730.

Small, trendy but imperfectly formed



BOOK REVIEW

For the past 15 years, conventional wisdom has been that small is both beautiful and beautiful in business. With large companies - from IBM to Kodak, General Motors to Westinghouse - finding it ever harder to adjust to an era of radical change, their days are numbered, the argument runs. Instead, small companies have become the prime driver of job creation, technological innovation and economic growth. For every Microsoft, Benetton or Body Shop, surging from small to large with remarkable speed, there are thousands of agile minnows which will never grow so big, but which are the economy's powerhouse.

Nonsense, says Bennett Harrison, a Pittsburgh professor of political economy who, as the author of recent books on American "deindustrialisation" and "working poverty", is no stranger to controversy. Instead, he argues that the prime motor of economic growth is becoming flexible, worldwide "networks of production". These are dominated by large companies but contain dependent minnows with a "dark side": unskilled, low-paid and unprotected workforces. Even in vibrant local regions and districts such as those in northern Italy and Silicon Valley, the idealised picture of clusters of interdependent, innovative small companies sparking each other's growth is incorrect, says Harrison. Such districts are coming increasingly under the influence of large companies, from Benetton to Japan's Fujitsu. He complains that their global networks are wreaking havoc with traditional government policies for regulating big business.

To back his case against what he calls "the myth of small firms", Harrison has certainly done his homework: a fifth of his 300-page book consists of references to research by others in economics, social science, technology and business strategy. He has, it seems, examined almost every side of every argument about the subject. Almost, but not quite.

His evidence on the over-

LEAN AND MEAN:
The Changing Landscape of Corporate Power in the Age of Flexibility
By Bennett Harrison
Basic Books, New York, \$25

stated role of small companies is important, but less forceful than it looks at first sight. This is partly because his definition of "small" is inconsistent: sometimes he confines it to organisations of less than 20 employees, sometimes of under 100 and occasionally higher still. Most of the research studies he collates and compares have also already been published, notably the work of a team which includes Professor James Medoff, an influential Harvard economist.

In simple terms - though the statistics are far from simple, hence the continuing controversy - Harrison argues that there has been no upward trend whatever over the past quarter century in small companies' share of employment in Japan and western Germany, the world's two most successful large economies. In the US, a modestly growing relative share of smaller units of production is discernible - not all of them owned by smaller companies, however - but only for manufacturing; in services, the average size of unit has grown.

Only in the UK, Harrison argues, is there uniform and unambiguous evidence that small is becoming increasingly beautiful, both for individual plants and for whole companies. But, as he says, that may be more a function of the failure of large manufacturers than a gauge of the real vibrancy of small enterprises.

Against the belief that small companies are more innovative than large ones, Harrison cites studies which suggest that this is definitely not true of process innovation (in production, information technology and so on) and is questionable in product innovation.

Harrison's corrective to the "small is beautiful" doctrine is especially timely in American political terms. Debate about the justification for a new industrial policy, and the shape it should take, has been under way ever since President Bill Clinton took office.

But that debate has encouraged Harrison to take a polarised position on several counts. First, most of the book is about manufacturing; there is too little discussion of the implications of the rapid recent American (and British) shift to services. Nor does he examine properly whether the accelerated pace of information technology and large company subcontracting favours only big service providers, or also specialised enterprises on a smaller scale.

Second, in his haste to refocus attention from small companies on to large ones, he falls into the common trap of almost ignoring those in the middle. The real story of Italian and especially German industrial success has not been very small companies, but specialised medium-sized ones. In a world of global networks, small may not be as powerful as was once thought, but medium size may remain so in certain products and services.

Third, in spite of his evident and interesting expert knowledge of the real workings of Italy's (government-supported) "industrial districts", some of his other perceptions about Europe are superficial. To cite the recent spate of cross-border takeovers and alliances as a sign of future strength in European big business is to ignore not just the weakness of some of those large companies, but also the evidence that most such takeovers fail.

On the other hand, Harrison provides plenty of meat for business people and politicians to chew on in the juxtaposition of his two main themes: the changing shape of concentrated corporate power, from centralised to dispersed; and the political, economic and social dilemmas which this creates for both national and state governments.

Oddly, in spite of all his concern about the socially "dark side" of global network production, he offers few specific policy recommendations, other than better enforcement of existing labour laws, and the provision of greater technical assistance to small and medium-sized companies.

Christopher Lorenz

THE FT INTERVIEW: Ruud Lubbers, Dutch prime minister



Mr. Ruud Lubbers ought to be feeling very sore. This week, the Dutch prime minister saw his bid to succeed Mr. Jacques Delors as president of the European Commission blocked by a Franco-German steamroller in favour of Mr. Jean-Luc Dehaene, prime minister of neighbouring Belgium. Once the favourite, Mr. Lubbers finds himself scrambling to salvage his candidacy.

The Franco-German preference for Mr. Dehaene is a clear snub, but Mr. Lubbers appeared unruffled yesterday morning as he sipped black coffee in his office in the centre of the Hague. "The choice that has to be made now is not only a choice to be made by Bonn and Paris... it is, of course, up to all other countries [of the European Union]."

His appeal to a broader constituency remains his strongest card; but it poses an explicit challenge to the Franco-German axis which has set the direction of the Union for the past 30 years. Unless he or Mr. Dehaene withdraws, there could be an uneasy row at the European summit in Corfu on June 24-25, when EU leaders are set to decide in secret on the successor to Mr. Delors.

For Mr. Lubbers, this is a painful prospect. A consensus-seeker schooled in the art of coalition-building in Dutch politics, he has spent 12 years brokering compromises inside the EU with German Chancellor Helmut Kohl and French President François Mitterrand - on issues ranging from the mind-numbing detail of the EU budget to German unification and the Maastricht treaty, which he pulled off at the end of the 1991 Dutch presidency.

Yet the Lubbers candidacy now transcends personalities. It is about the place of the Netherlands inside the Union, and the dilemma of smaller states struggling to preserve their influence ahead of the prospective entry of four new members from Austria, Sweden, Finland and Norway.

The Dutch dilemma is poignant because the Netherlands has never won its fair share of EU spoils, despite being an EU founder member. Unlike Belgium or Luxembourg, it has failed to secure Euro-institutions such as the European Parliament, the European Court of Justice, which are money-spinners for the local economy. Only last year, the Dutch bid to put the European Monetary Institute in Amsterdam was dashed by Mr. Kohl's insistence on locating the forerunner of the European central bank in Frankfurt.

The Lubbers candidacy was supposed to redress the balance. Here was a prestigious post which Mr. Delors has changed beyond recognition since he first arrived in Brussels almost 10 years ago. Thanks to Mr. Delors, the president of the Commission is not just a top-flight bureaucrat; he is the public face of the Union. With his Christian Democrat background, and 12-year membership of the club of EU leaders, Mr. Lubbers looked like a shoe-in. So what went wrong?

Mr. Lubbers concedes he may have alienated the French and the Germans earlier this year by refusing to commit himself to entering the race. He was worried about distracting public attention from last month's Dutch general election at a time when Mr. Elco Brinkman, his hand-picked successor, was struggling to take over his mantle. He had also pledged to Queen Beatrix to serve out his term as prime minister, which precluded a public campaign for the Brussels post of the kind waged by Sir Leon Brittan, chief EU trade negotiator. Sir Leon and Mr. Peter Sutherland, former head of Gatt, are long-shot contenders.

In retrospect, Mr. Lubbers's reticence looks like a miscalculation. The French seized on Mr. Dehaene, a French-speaker on the left wing of the Christian Democrat party, who had impressed during last year's Belgian presidency of the EU. Mr. Kohl, who favoured initially Mr. Wilfried Martens, a former Belgian premier, fell into line.

Mr. Martens did not command the support of his own government, so "Kohl feared that he was empty-handed", says Mr. Lubbers, adding mischievously that the rotund Mr. Dehaene had the *goesting* (appetite) for the top job. That may not be the whole

Spoiler in the Euro contest



Ruud Lubbers: no longer favourite to be Commission president

story. Mr. Lubbers and Mr. Kohl have never been close. Nor did the German chancellor appreciate the Dutchman's call for clarity about the German-Polish border during German unification, challenging Mr. Kohl's preference for leaving the question open in order to pla-

'We should not accept too easily lots of exceptions and differences in speeds'

cate the German right ahead of the 1990 general election. So is he too independent-minded for Mr. Kohl? The Dutch prime minister pauses: "Perhaps."

There is no question that Mr. Lubbers has his own views on the future of Europe. He is keen on a common European defence evolving under the

umbrella of the Nato alliance, and is frustrated with the UK government for dragging its feet. He also supports European monetary union, mainly because the Dutch are certain to be in the vanguard along with the Germans.

Yet he is sympathetic to British warnings about the risks of integration moving too far ahead of European public opinion. Even in his own country, he feels that enthusiasm for Europe is diminishing. Hence the need for Europe's leaders to restore a sense of mission. He offers three slogans:

● Efficiency. Mr. Lubbers, who comes from a line of Rotterdam industrialists, wants tighter controls on the Ecu70bn annual EU budget and a bigger role for the Court of Auditors, the spending watchdog. "People must have the feeling that resources are well spent."

● Democracy. He wants more transparency in decision-making.

ing. He favours a bigger role for the European Parliament in shaping legislation, more public debates with the Commission, and more involvement by national parliaments in areas of inter-governmental co-operation under the second and third pillars of the Maastricht treaty, such as foreign policy, security and justice matters.

● Credibility. He is worried about the EU stretching its ambitions. He cautions against a "Big Bang" conference to review Maastricht in 1996 which could introduce more qualified majority voting in an expanded union. He welcomes the "inevitable" EU membership of the central European countries such as Poland, Hungary and the Czech Republic, but he warns against arousing unrealistic expectations about the timing of entry.

Yet Mr. Lubbers wants the EU to work. Without criticising Mr. John Major's call this week for a multi-speed Europe, he says the principle of opting out should apply only to the second and third pillars. On Ecu, he concedes that some countries may move faster than others, "but there must be a limited time difference. We should not accept too easily all sorts of exceptions and differences in speeds."

On the other hand, Mr. Lubbers has little sympathy for French calls for a club of "founder members" led by France, Germany, the Benelux and Italy - an idea floated again this week by Mr. Alain Lamassoure, France's minister for European affairs.

"I find this fascinating. Why? Because he suggests that the old Six should give a new example of what to do. But he [Lamassoure] writes the article on the very same day as two of them, France and Germany, come out of the preparations for the next [European] Council not as Six but as Two, Italy and the Netherlands are included in his architecture, but are excluded from consensus-seeking."

There is a firmness in tone which suggests that Mr. Lubbers is loath to let a Franco-German diatribe push him out of the race. So he is ready to take his candidacy "down to the wire" at Corfu? "Yes," came the unequivocal response.

Lionel Barber and Ronald van de Krol

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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India's policy right for monetary growth

From Mr S K Rao.

Sir, Martin Wolf's report on India ("India resists IMF pressure over currency", May 26) illustrates the type of dilemma which liberalising economies face in the management of exchange rate policy.

India's exchange reserves accumulated to present levels mainly on account of portfolio flows, which can easily flow out again should the foreign investors reassess the relative

attraction of India as a market. Adjusting exchange rates to the size of reserves could thus run the risk of introducing a degree of exchange rate volatility which could undermine investor confidence. Surely, what the government of India is doing is right: to try to sterilise foreign exchange reserves to ensure that monetary growth is stable.

India's fiscal deficit had been high partly because of reduced

revenues from customs duties which was in turn due to reduced tariffs combined with low level of imports and investment. The trick is to find ways of promoting investment. Under the present conditions, by throwing open infrastructure projects (communications, power, etc) to private sector investment in a much more vigorous fashion, it might be possible to induce a revival of private sector investment,

including foreign. Investment in infrastructure is import-intensive and the present reserves should provide the cushion needed for it.

Improving incentives for investment, rather than adjusting exchange rates, will be the key for improving growth, fiscal balance and reserve management.

S K Rao,
7 Maresfield Gardens,
London NW5 5SJ

Not just great - but 'The Master'

From Professor J R Pole.

Sir, Your correspondent Laura Thompson needs to do some serious reading. She says ("Brian Lara - the dream machine", May 30) that Jack Hobbs was "another great cricketer, but not in the race-horse class" - meaning (apparently) not in the highest class. Hobbs, the first cricketer to be knighted, was certainly the only cricketer to share with Henry James the accolade of "The Master".

I would submit that he was the greatest batsman, and probably the best cover point, between the age of W G Grace and that of Don Bradman, a very long innings, which took in the profound alteration in

the way the game was played after the first world war.

Hobbs mastered the mystery of the googly, which I believe Grace considered an "unfair" delivery. He scored 197 first-class centuries, incredibly hitting 100 of them when more than 40 years of age, which Bradman could not have done. He and Herbert Sutcliffe once batted all day on a sticky Melbourne wicket, a project in which Bradman would not even have been interested.

Hobbs was not only the greatest but also the best-loved player of his era. If he did not often amass the very high scores which became more common in the Bradman era, it was at least partly because he

tended, soon after getting his 100, to present his wicket to the bowler he had flogged the most (or so I've heard).

He was supremely elegant and someone (Cardus? Swanton?) once remarked that he never played an ungrammatical stroke.

Incidentally, Brian Lara has not come out of the blue. Everyone in Kingston, Jamaica, was talking about him when the Australians were last there. They were impatient for Greenidge to retire - to which Greenidge replied by hitting 215 or so in the fifth test.

J R Pole,
20 Darnley Road,
Oxford OX4 1LJ

Focal point for energy efficiency

From Lord Moore and others.

Sir, As independent directors, we should like to correct two of the points made in your editorial, "The cost of saving energy" (May 25), on the objectives and organisation of the Energy Saving Trust.

You state that the trust is intended to subsidise household improvements such as low-energy light bulbs, efficient boilers and loft and wall insulation. While the trust does plan schemes that involve these measures, our objective is to nurture and stimulate embryonic markets to sustainability so that resultant products and services can replace their more inefficient counterparts. The success of our gas condensing boiler scheme illustrates this principle, with nearly 10,000 applications for a £200 rebate on the cost of installing this type of boiler received during the scheme's

one year pilot. Resulting competition and volume production have already led to a 10 per cent reduction in the average price of such boilers, with several new producers and suppliers entering the market. As with all of our schemes, the level of rebate provided will be reduced progressively as the price differential decreases over time.

You also comment that "the trust lacks the administration to disburse £300m a year in parcels of several hundred pounds, let alone to identify which households should benefit". As we explain in our strategic plan, the trust does not intend directly to manage any schemes itself. Instead, it will determine the most effective method of delivering each scheme and then select the appropriate delivery mechanism. Some will operate at a national level, others will be

implemented regionally within a national framework, while some will be best run independently and locally. Project implementation will be carried out by the most appropriate external body, either through a contractual agreement with the trust or under the trust's monitoring and evaluation procedures.

The trust wishes to be a focal point for energy efficiency work in the UK but has no wish to duplicate expertise already developed over many years. Instead, our intention is to remain a small organisation, fit for purpose.

As we explain in our strategic plan, the trust does not intend directly to manage any schemes itself. Instead, it will determine the most effective method of delivering each scheme and then select the appropriate delivery mechanism. Some will operate at a national level, others will be

A limit to options excess

From Mr Peter Brown.

Sir, We would support David Rhodes's warnings (Letters, May 27) of legislative action, based on US experience, if aspects of executive pay are seen to be excessive. The pensions "cap" is a recent UK example and some elements of option awards must be in the sights of future ministers and their advisers.

The accusations of excess lie not in exercising options but immediately selling the entire holding, and it is this aspect of scheme design that is principally exercising remuneration committees and investors.

If on exercise of an option worth more than 30 per cent of current salary an executive could only sell enough shares to allow him/her to reinvest in purchasing the remainder of the option entitlement for a further period of, say, three years, the danger of the "inspired" sales of option shares would be reduced. The trouble with 1984 executive option legislation was its uneasy balance between the concepts of long-term performance awards and shareholding democracy as many more holders have used options as a one-way bet on a bundle of cash rather than becoming real shareholders.

Option rights restricted to the reinvestment of cash in some retained shares would restore the concept of shareholding executives without any knock-on effect on revenue or other related legislation.

Peter Brown,
chairman,
Top Pay Research Group,
9 Savoy Street, London WC2

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THE WEEKLY NEWSPAPER FOR EUROPE

FINANCIAL TIMES

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Thursday June 2 1994

Case for global social security

The richest fifth of the world's population generates - and enjoys - 85 per cent of world output. The poorest fifth produces - and struggles to survive on - just 1.4 per cent. This extraordinary maldistribution of global prosperity seems difficult to justify. But it also means that a great deal can be done for the poorest at relatively limited cost to the richest. To the credit of its authors, at least parts of the agenda put forward in this year's United Nations Human Development Report for next year's World Summit for Social Development meet that test of practicality.

One of the peculiarities of 20th-century social security systems is that what might seem a universal moral obligation upon the rich to help the poor has been turned into a narrower obligation to help fellow citizens. The treatment of national income as a form of private property is politically inevitable. Its moral justification, is harder to detect.

It also has very practical consequences. At present the industrial countries allocate 15 per cent of their combined national incomes to providing social security at home, while only 0.3 per cent goes on foreign aid. The domestic social safety net helps those 10m fellow citizens who receive average incomes of less than \$5,000. But the poor in developing countries number some 1.3bn, with average incomes of less than \$300 a year. Yet, incredibly, the impression persists, particularly in the US, that foreign aid is a major diversion of resources from the more deserving at home to the under-servicing abroad.

Tricky choices

The challenge of securing what the report calls "sustainable human development" is therefore just as much to the supposedly caring left, of the political spectrum of the advanced countries as to the allegedly unfeeling right. Everyone would have to accept large changes to their normal way of looking at things.

The report also shows that once wealthy countries, under the influence of their powerful environmental lobbies, have raised the standard of global sustainable development, it is they, once again, who will face the tricky

moral choices. "The north has roughly one-fifth of the world's population...and consumes 70 per cent of the world's energy, 75 per cent of its metals and 85 per cent of its wood." If global resources and carrying capacity are indeed limited, as environmentalists insist, then the north's free access to these globally scarce assets cannot be justified. If, for example, the environment were correctly priced and permits issued on the basis of population, as well as of gross domestic product, rich nations might have to transfer 5 per cent of their combined national incomes to the poor.

Human development

When confronting people with choices this painful, it is wise to offer an escape. The report's way out is a specific practical proposal, justified under the label "human security". It argues *inter alia* for a compact on human development, aimed at meeting the basic needs of everyone: access to primary education and health care, clean drinking water and sanitation, immunisation of all children; halving of maternal mortality; access to family planning services for all who want them; halving of adult illiteracy and elimination of severe malnutrition. Among the benefits of this programme could be a marked reduction in fertility.

This programme, it argues, would cost a mere \$30bn-\$40bn a year, about a third of what developing countries spend on their military and 5 per cent of the global arms budget. This could be provided by devoting 20 per cent of total developing country budgets and 20 per cent of industrial country aid to these objectives.

This compact is, of course, a far cry from the report's more ambitious ideas for a "global human security fund", financed by some form of global taxation. It would not of itself necessarily halt the political and social disintegration that now threatens the survival of countries such as Afghanistan, Angola, Haiti, Iraq and Mozambique. But the merit of this report is that it does more than make readers think large thoughts about the peculiar world in which we all live. It also presents politically and organisationally practical ways of making it somewhat less peculiar.

A Europe of many layers

Purists might query whether Mr John Major is well-advised to discuss the future of Europe in language reminiscent of that of a Formula One racing commentator. Yet the UK prime minister's speech on Tuesday night, espousing a "multi-track, multi-speed" Europe, was in many ways a statement of the obvious. The Maastricht treaty endorses the concept of European integration proceeding at varying paces. By gaining exemptions from the Maastricht arrangements over social policy and monetary union, the UK has already endorsed the principle in European law.

Since the 1992-93 collapse of the narrow-margin ERM, patterns of EU monetary co-operation, for instance, have become still more heterogeneous. Over home affairs, as well as defence and foreign policy, different EU groupings are carrying out inter-governmental co-operation in different ways. As the EU grows, perhaps to 18 countries next year and more than 20 by early next century, the tendency towards greater diversity is likely to strengthen.

At a time of rampant electioneering it was perhaps not surprising that Mr Major's self-evident remarks should have been seized on as a novel statement of government policy. Almost inevitably the prime minister's remarks attracted criticism from the opposition that he is irredeemably abandoning the UK to the "slow lane" of Europe.

Mr Major's problems are partly of his own making, but they also reveal how Britain is ensnared by contradictory fears about the development of Europe. The chief difficulty with the prime minister's rhetoric is that he is trying to send different messages to separate audiences. As a result, both messages and audiences become confused.

Overt move

Talk about opting out of layers of European integration may assuage Eurosceptics' concern that Britain's interests could be undermined by policies fostered on it from the Continent. Yet such comments disconcert those who are worried that an overt move towards political and monetary union by a group of countries led by France and Germany could cause Britain serious economic

damage. Equally, Mr Major's trumpeting of a "multi-speed" Europe conflicts with his insistence during the last three years that Britain maintains a well-regarded place at the topmost tables of European decision-making. Even in the contented world of European politics, theories of black hole physics do not apply. Mr Major cannot both be "at the heart of Europe" and "simultaneously walk away from it."

Independent policies

At a broader level, Mr Major's statements over Europe mirror ambivalence in many EU capitals over the continent's future. By underscoring the advantages of Britain's retention of more independent social and monetary policies, Mr Major wants to lend weight to those in other EU countries who doubt the wisdom of a federal Europe.

These doubts certainly exist, and they have grown since 1991. As demonstrated by the opinion poll in yesterday's Financial Times carried out across the 12 EU members, the German electorate, in particular, has become increasingly opposed to closer integration as laid down by Maastricht.

Recent French government proposals for intensified co-operation by a Franco-German "core" appear, at least in part, to reflect worries in Paris about a slippage in Germany's Maastricht commitment, above all over monetary union. Some of these German doubts are, it seems clear, also felt at the highest level in Paris. It is worth recalling that, before he became prime minister, Mr Edouard Balladur publicly voiced scepticism about attempts to "bind" Germany to western Europe through devices such as Maastricht.

In view of the elections in Germany and France over the next 12 months, the clouds which hang over the direction of European policies are unlikely to lift until the EU is much closer to the Maastricht review conference in 1995. In the meantime, the EU will well served if a consensus gains ground that in many spheres the degree of integration should be closely tailored to individual members' political preferences and economic capacities. Whatever his motives, Mr Major has made a sound point.

Although most of the junkies which economic scribes are attending this summer relate to the 50th anniversary of the Bretton Woods institutions - the IMF and World Bank - and the 30th anniversary of the Bank of England, it is arguable that another anniversary is almost as important. I refer to that, last week, of the 1944 white paper on unemployment policy by the UK's wartime coalition government. This expressed the determination of British leaders not to return to the horrors of interwar unemployment. In the UK, as elsewhere, full employment was once an uncontroversial bipartisan objective, actually achieved between the end of the war and the early 1970s.

A common feature of the platform of all the candidates for the Labour leadership is their expressed determination to restore full employment. This, of course, is easier said than done, as can be seen from the example of France, which has been mostly under Socialist rule since the early 1980s, but where unemployment is 2 1/2 percentage points higher than in the UK; or Sweden, which maintained low unemployment for much longer than most countries, but where the jobless rate has now soared to 8 1/2 per cent.

It is, indeed, now quite usual for historically minded economists of all schools of thought to pay just tribute to the wisdom and presence of the white paper, which warned - decades in advance - of the difficulties that might occur. But at the time it was a compromise document. It trod a middle way between the apostles of Keynesian demand management in the economic section of the Cabinet Office and Treasury officials concerned to balance the budget at least over a business cycle, worried that the UK was at the mercy of world economic forces and anxious that the UK should pay its way in a harshly competitive postwar world.

The white paper's famous first sentence began: "The government accepts as one of its primary aims and responsibilities the maintenance of a high and stable level of employment after the war." Keynes thought this more important than the whole of the rest of the paper.

But did the government accept such a commitment? It accepted responsibility for maintaining "total demand for goods and services at a high level". But this was coupled with the now-famous warning that "policies to maintain demand will not work in securing high employment unless employers and workers exercise moderation in wage matters so that increased expenditure on the onset of a depression goes to increase employment rather than pay and prices". But the white paper had few suggestions for ensuring moderation other than exhortations of the kind resorted to by postwar governments.

Even when it came to maintaining total spending, the white paper had a less than total commitment. The authors were, for instance, obsessed with the external component of demand, which was not under British control. It is also easy to read back too much into the white paper. Its authors did not discuss clearly the choice between maintaining nominal and maintaining real demand. But read in context with the warnings about pay and prices, it is natural to interpret it in terms of maintaining demand in money terms, that is nominal demand. Demand management in real terms and "funny money" control of public expenditure intruded as the official forecasters and statisticians began to cope with creeping postwar inflation.

The aim of controlling aggregate expenditure needs to be reinstated. There is nothing in this aim which a common-sense monetarist should reject. After all, why does he believe in monetary targets? It is because he asserts that there is a stable relationship between the money supply, M, and total spending measured by MV (money x velocity) - which implies that M values a stable growth in the latter.

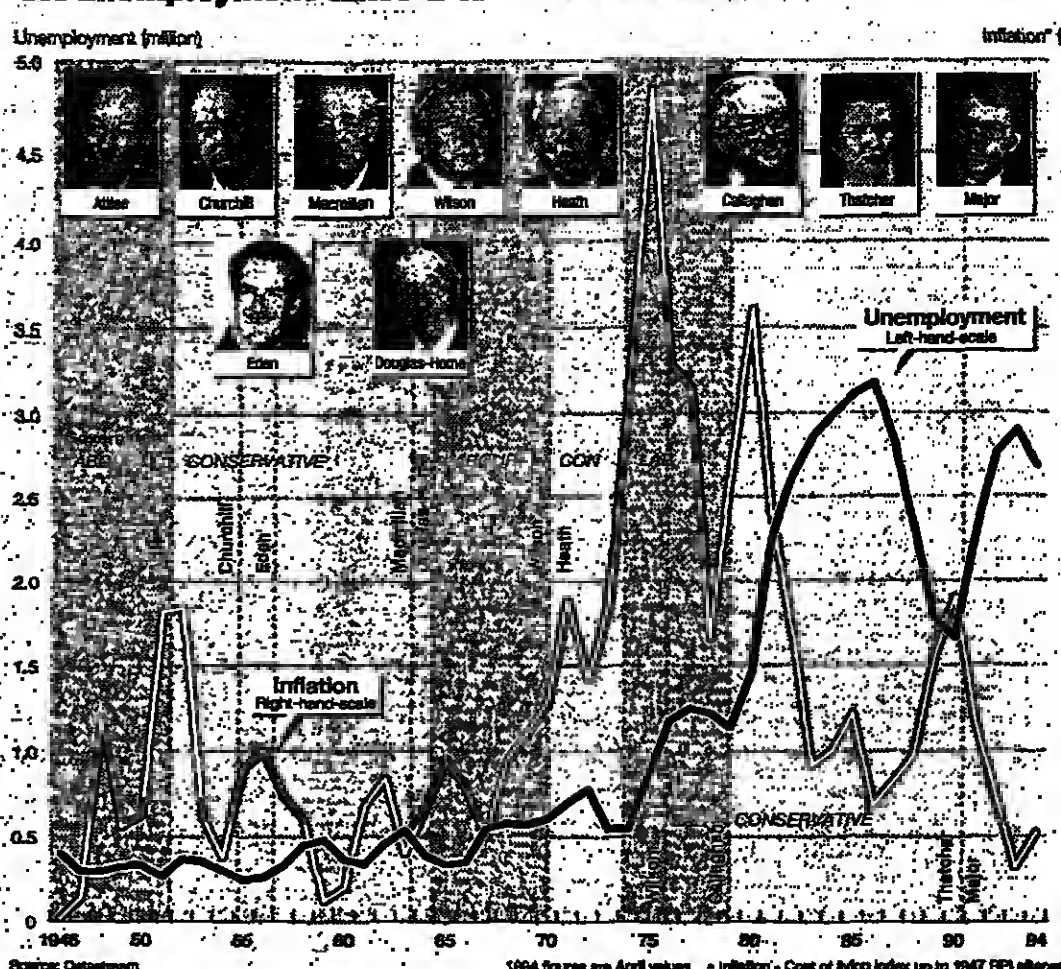
Unfortunately the recent move to define macroeconomic policy entirely in terms of an inflation tar-

ECONOMIC VIEWPOINT

Sad jubilee of a white paper

By Samuel Brittan

UK unemployment takes a turn for the worse



get is a step backwards. This is explained well by James Meade in his new pamphlet, *Full Employment without Inflation* (Social Market Foundation, £5). Suppose output were to drop in one year by 10 per cent, while inflation was just over 1 per cent. There would be no breach of the government's stated objective of keeping inflation in the 1 to 4 per cent band and no obligation to take countervailing action. Such action would - at least on present official doctrine - have to await evidence of actual deflation. An objective for total expenditure would lead to earlier offsetting action.

Maintaining adequate, but not excessive, monetary demand has

The aim of controlling aggregate spending should be reinstated. No rational monetarist should object

two main functions. One is, as the last example shows, to prevent a downward spiralling slump; the other is to prevent a serious inflationary take-off by putting a lid on growth of total spending. Thus one big switch in thinking, compared to the white paper, is that demand management is today used to contain inflation, in place of the jawboning or industry-union talks the 1944 document envisaged.

The term "structural" - or, better, "hard core" - can legitimately be used for that part of unemployment which cannot be permanently reduced by maintenance of demand. It is this element which has been rising from one business cycle to the next, and which is especially bad in Europe. The proximate

explanation for this hard core is that pay and related costs make workers unprofitable to employ.

With the clear failure of demand deficiency to account for the bulk of the rise in European unemployment since the early 1970s, attention has naturally turned to this aspect. If the price of any particular service is raised, less will be bought - both because purchasers can afford less and because they have an incentive to substitute something else.

The emphasis of economists such as Patrick Minford of Liverpool University has been, however, not on monopoly pricing, as such, but on the level of benefit when out of work. These economists make the benefit ratio - that is, the ratio of benefits to average pay - the fulcrum of their whole explanation. The benefit level is supposed to provide the floor or reserve wage below which it does not pay to take a registered job.

The pricing-out-of-work and benefit-level explanations come together in the assertion that, without the dole, pay rates would drop, as people would have to price themselves into work to survive. I prefer the pricing-out formulation because it leaves space for institutional, psychological and even moral forces, which - quite apart from the dole - stop pay from shifting to market clearing levels.

If governments rightly hesitate to attack the benefit floor, the one weapon with which they are left is sufficient flexibility in wages and other labour costs to price people into work. This is not a policy in the direct instrumental sense; but it involves taking every opportunity to break down labour market barriers of which union pay-setting is only one example. It is more or less consistent with the British government's approach to European labour markets, as opposed to pro-

ponents of the Social Chapter.

Accepting the pricing-out-of-work explanation does not entail the advocacy of starvation wages. If market clearing pay rates are regarded as intolerably low, at least three courses are open. The first - the counsel of despair - is to accept high unemployment as an alternative. The second - counsel of perfection - is to try to raise the market value of workers' services by the means of education and training so that customary pay rates are no longer a threat to employment. The third is supplementary payments to lowly paid families.

The real weakness of the pricing-out-of-work thesis, as often

The recent move to define macroeconomic policy only in terms of an inflation target is a step backwards

expounded, is its timelessness - a weakness rarely spotted by the critics. Why should there be so much more pricing-out-of-work in some periods than in others? Or, to put it in macroeconomic terms, why should the rate of unemployment consistent with non-accelerating inflation (the "Natu") have apparently been so low in the 1950s and 1960s and then risen so much in the later 1970s and in the 1980s?

There are at least two reasons why unemployment could have remained so low in the early post-war decades. First there was the persistence of "money illusion" - the surviving prewar belief that a pound was a pound and a dollar a dollar. Insufficient allowance was made for inflation in pay and price

behaviour, and so it was possible to run national economies with much tighter labour markets than before or afterwards without triggering accelerating inflation.

The second, and perhaps more interesting, reason is that postwar growth was a fairly straightforward process involving other countries catching up with best-practice, American techniques. Modest traditional pay relativities between industries, and between skilled and unskilled workers, were sufficient to balance the labour market.

The inflationary outbreak of the 1970s shattered remnants of money illusion for generations to come. A slack labour market was now needed to prevent pay and prices chasing each other upwards. The relative demand for different types of labour was still for a time stable enough for central European and Scandinavian countries with strong traditions of social solidarity to hold real wages in check at modest levels of unemployment.

Thus demand management - whatever label was attached to it - could be switched to the struggle against inflation without large job losses. As the 1980s proceeded, however, the conditions required for these centralised agreements to work began to disappear. Traditional relativities between different industries and skills, or between areas of declining old-fashioned manufacturing industry and high-technology growth areas (for example, between north and south Germany), were no longer sufficient to clear labour markets. Meanwhile the rigidities imposed to obtain union consent for national economic policies became in some Continental countries an increasing drag on performance.

The pressures that have come to the surface in Europe in unemployment and non-employment have expressed themselves in the US in pay stagnation and downward absolute movements among the lowest 20 or 30 per cent of wage earners. No wonder Meade suggested that, to create 2m more jobs in Britain, average real wages would not merely have to be "restrained" but actually to fall.

How, then, can the rest of us stop up the wages of the lower paid so that they can price themselves into work? The high marginal cut-off rates which create the poverty trap stem from the speed at which benefits taper off as incomes rise. If the system aims for the greatest generosity at lowest cost, the withdrawal rate is likely to be extremely high. On the other hand, if benefits are tapered off very gradually, poverty trap effects are reduced; but either the cost is prohibitively expensive or the benefits are far too low.

The best chance of advance is to act where the social security system unnecessarily discourages workers from accepting low-paid jobs or employers from offering them.

Any government could quite inexpensively take a first step and extend the top-up for low income earners, known as family credit, to single people and childless households. This move would cost it about £350m a year in 1994 - trivial by the standards of modern public finance.

It would also help if the withdrawal rate for income support for adults of working age could be reduced below 100 per cent and brought in line with the 70 per cent taper used for other income-related benefits. Specifically, it would encourage people to take spasmodic, casual or part-time jobs that did not qualify them for family credit, and to do so on a legal basis.

Changes could also be made so that assessment for income-related benefit resembled tax assessment rather than a medieval inquisition.

This discussion has moved from monetary policy via labour market details to the arcane area of social security. The range indicates a little of the ground a new employment white paper would have to cover. I would feel more comfortable if we could replace all this with one big idea. But modest ideas with a chance of being right are better than big ideas which are wrong.

Wry bread for Danes

Now it seems increasingly likely that the unwell Manfred Wörner, Nato's 59-year-old secretary general, will soon retire - he is not chafing a meeting of Nato foreign ministers in Istanbul next week - the bounds are already suiting at the gate.

But although he has all the right credentials, one hopeful is facing disappointment. Denmark's Uffe Ellemann-Jensen, leader of the Danish Liberal party, has already had his card marked by none other than a fellow Dane, Poul Nyrup Rasmussen, leader of the Social Democratic party and head of the present government.

Ellemann-Jensen is the one Danish politician who easily strides across the international arena. Foreign minister between September 1992 and January 1993, he is revered in many east European countries for having shaken his neck out in support of their anti-communist independence drives.

But at home Ellemann-Jensen's habit of sharp-tongued straight-talking has earned him powerful enemies. Rasmussen has let it be known - via that trusted method, the media - that his government will not support Ellemann-Jensen, should he want the job.

Still, Ellemann-Jensen will only be available if he is still in

opposition after this autumn's general election to the Folketing. And no-one is ready to place bets on Rasmussen's being around by Christmas.

Mile high club

KLM Royal Dutch Airlines is experiencing an unusual industrial hiccup - an unexpected cabin crew shortage because of stewardess pregnancies.

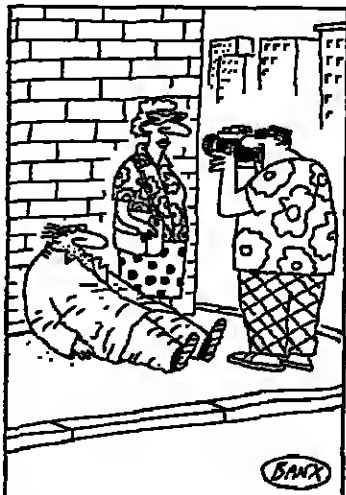
Apparently the pregnancy rate among flight attendants this year has jumped 31 per cent - to 275 - from the usual figure of about 210 pregnancies annually among the airline's 4,400 stewardesses. Don't panic. KLM says no flights will be cancelled because of the staff shortage; a recruitment effort is under way.

Piers ploughman

The die is cast. Clearly Alan Clark - whose sexual exploits with two women and their mother have vitalised an otherwise enervated week for the British tabloid press - will be made to wriggle awhile on the book.

For the acting editor who "broke" - or is it brokered? - the story in The News of the World, Britain's largest circulation tabloid newspaper, youthful Piers Morgan, 29, has been promoted to full editor. Patricia (ubiquitously known as Patsy) Chapman, 45, who has been

OBSERVER



on sick leave since January, is stepping down permanently. Evidently Rupert Murdoch, who owns the paper, likes what he sees in Morgan.

Downbeat daub

Poor old Denis. Lady Thatcher's husband should have been in his element at Tuesday night's bash at the Royal Academy, laid on by Guinness to celebrate its sponsorship of the RA's Summer Exhibition. Sir Denis's old golfing chum, Lord MacFarlane, chairman of Guinness's Old Distillers, had asked him along as guest of

honour, to thank him for all his help over the years, opening factories and suchlike.

But when it came to the highlight of the evening - the gift of a special bottle of hooch to mark the 500th anniversary of Scotch whisky - up popped the lady herself to accept the gift.

With her usual aplomb, Britain's ex-prime minister went on to argue that the RA was a "pure Thatcherite" organisation, because it was not supported by a "penny piece of taxpayers' money".

As for the exhibits, she opined that she shared Sir Winston Churchill's view: modern artists should not be let loose until they had proved they could paint a real picture.

Pehr pressure

Six months after his 23-year rule over Volvo collapsed, we are still in the dark about Pehr Gyllenhammar's precise role in the final days up to the Volvo management and shareholder revolt against his plan to merge with Renault.

But yesterday he decided to give a sneak preview, through a letter sent to the chairman of the Swedish parliament's constitutional committee.

Before the fateful board meeting on December 2, according to the letter, PG was uncertain if the merger would be torn up. Such was the "drama" surrounding the

affair, he says, that his position as chairman was neither "the only nor the best source of information" on the outcome. Instead he refers to a "somewhat darkly" - to "powerful interests" who decided to dump the project.

The constitutional committee has stirred controversy by suggesting that a cabinet minister - Ulf Dinkelspiel, minister for European affairs, whose company profited from trading in Volvo shares at the time - may have had inside knowledge from briefings Gyllenhammar gave the government on the affair that the merger was doomed.

So what did happen, PG?

Shaggy tail

Eugene Rotberg, former treasurer of the World Bank, has a tall tale concerning a banker, a corporate treasurer and a dog.

The banker and treasurer perambulate past a pet shop window and spy a dog for sale. The banker buys it for \$5, then sells it to the treasurer for \$10. A few days later, the banker wants it back, so he bids \$20. The dog keeps changing hands until the banker buys it for \$1m.

Then the dog escapes from the bank and is killed by a car. The treasurer is furious. "Couldn't you have been more careful?" he complains to the banker. "Don't you realise how much money we were making on that dog?"

European Commission seeks private financing

EU must find funds for Euro-networks

By Emma Tucker in Brussels

The European Union must act to ensure that there will be funds to build large transport, energy and communications networks in Europe, Mr Henning Christophersen, vice-president of the European Commission, said yesterday.

In a report to be presented to next week's meeting of EU economics and finance ministers on the funding of so-called trans-European networks, Mr Christophersen said possible financing problems for the projects were already alarming. He invited member states, EU institutions and private operators to consider how to maintain an adequate pace of investment.

Mr Christophersen stressed again the need to attract private finance to fund very large infrastructural projects. His comments came in the wake of another recent sharp rise in long-term European interest

rates, pushed higher by investors' nervousness about inflation.

He said market trends this week made it even more important to get a clear signal from next week's Ecofin meeting, and from the Corfu summit of Union leaders later this month, that ministers are planning to step up their anti-inflationary policies.

"This message is even more important than two weeks ago because the market fears that inflation is going to come back."

The recent rise in long-term borrowing rates will strengthen the position of those member states that are wary of proposals to raise extra funds through the issue of "union bonds".

Mr Christophersen said the EU might consider co-financing with the European Investment Bank for priority projects.

Another option for capital markets funding would be for the union to underwrite or guarantee private sector projects. Such

guarantees could be made available to loans specific to projects that were co-financed with the European Investment Bank.

Mr Christophersen also pointed out that there was likely to be a shortfall in financing of up to Ecu6.4bn (\$7.42bn) for Europe's 10 priority transport projects.

Projects receiving public assistance will have to satisfy economic viability tests. "They should be expected to produce a substantial net benefit to society, taking into account also the external costs and benefits," he said.

He added that at Union level the European Investment Bank would be the largest single source of finance for the trans-European networks. In addition, the European Investment Fund, now operational, will work with the private sector in helping to allocate and manage risks.

Warning on finance for EU networks, Page 2

Reforms bring Wall St salaries to Bombay

By Nazneen Karmali in Bombay and Stefan Wagstyl in New Delhi

Financial reforms are creating a new elite in India, bringing Wall Street investment banks, aggressive headhunting and salary packages that tower over the earnings of the bank clerks of Bombay.

Salaries for the sought-after have risen 300 per cent in the past year and could climb further as US and European investment banks rush to set up shop in India's commercial capital to take advantage of the government's liberalisation drive.

Morgan Stanley and Salomon Brothers of the US have recently hired senior managers for salaries estimated at \$400,000 including bonuses.

At that rate, the pay is at least five times more than these bankers were paid at their previous jobs at the old-established foreign banks in Bombay, and at least 100 times more than the salary of a typical Indian bank clerk.

"The cost of hiring in India is hitting international levels," Morgan Stanley Asset Management said. Mr Rafiq Dossani, a director of Jardine Fleming's Indian affiliate, added: "The difference between India and the rest of the world is narrowing sharply."

The differences are also being reduced by the arrival of non-resident Indians from the US, the UK and elsewhere. Companies are finding it difficult to pay their locally hired top executives less than the non-residents who are also bringing with them a modern work culture.

Lap-top computers, digital diaries, and Mont Blanc pens have become commonplace among the financial elite. The top earners are beginning to imitate the lifestyles of the city's established business families. Taxes on imported cars are still prohibitively expensive, but owning two or three Indian models is well within the reach of bankers on better salaries.

Clothes are mostly bought abroad. Slick gelled-back hairstyles are the order of the day. Membership of Bombay's top dining clubs - the Bahadur at the Oberoi Hotel and the Chambers at the Taj Hotel - has become almost mandatory.

Women as well as men are getting top jobs, though not in the numbers. Ms Ratna Kakkar, who has recently joined Smith New Court, the British stockbroker, says: "Things are definitely more fast-paced."

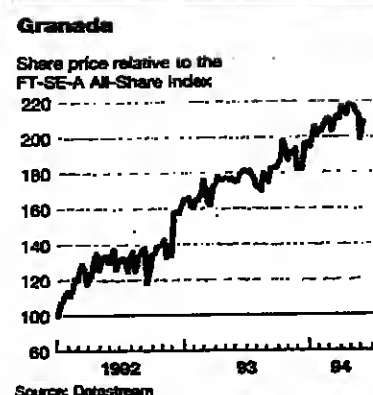
Salaries are being pushed up by foreign companies establishing offices or increasing their staff. The arrivals are hiring middle- and junior-level staff including research analysts, corporate financiers and fund managers.

Median annual salaries for such people have hit \$30,000-\$40,000, a senior executive at one foreign broker said.

THE LEX COLUMN

Granada grows hungry

FT-SE Index: 2931.9 (-38.6)



Granada's ambitions to expand its television and catering arms look sensible enough. While it is still too soon to know whether the LWT acquisition will enhance shareholder wealth, Granada was bullish yesterday at its interim results on how things are progressing so far. There would be an opportunity to apply the same rationalisation formula on another TTV company, with Yorkshire Tyne-Tees Television the group's favoured target.

Similarly, there is presumably scope for rationalising Britain's fragmented catering industry. Granada has already proved it can manage such businesses. Margins at Sutcliffe, bought last year, are up 80 per cent. Chief executive Mr Garry Robinson retains an affection for the industry from his days at Compass. And while there is nothing obvious on the market at the moment to bid for, Gardner Merchant could become available in a couple of years.

Financing further acquisitions should not be a big problem. The group as a whole, and the rental side in particular, are strongly cash-generative. Though the LWT deal has temporarily pushed gearing above 100 per cent, the more important measure of Granada's financial strength is its interest cover of 6.6. As cash from the BSkyB refinancing flows in, group gearing and interest cover will improve. If Granada is able to sell its BSkyB stake, worth about £500m, the position would be stronger still.

The longer-term question is whether there is any point in keeping TV, rental and catering operations in the same group. Mr Robinson shows no desire to split them. But investors watching Thorn EMI inch its way towards a demerger may have other ideas.

UK gilts

The UK gilts market passed another milestone yesterday when the June future slipped through par for the first time since January 1993. Those groping for reasons may cite the steep growth in M0 money supply and evidence that the economy is continuing to grow despite April's tax increases. Such factors may indeed prompt the Bank of England to start wondering about when it should tighten monetary policy again. But cash selling has been limited. Gilts' weakness has been above all driven by speculative selling of the futures. That in turn leaves markets looking prey to some pretty irrational forces.

The short sterling contract, for example, suggests that base rates will be as high as 6.5 per cent by December and that they will rise by a total of two percentage points between September and June next year. That might just happen with a sudden resurgence of inflation and a sharp fall in sterling. The balance of probability is that it will not.

Cooler heads might prefer to consider yields of almost 9 per cent available on 10-year conventional gilts and nearly 4 per cent in index-linked paper. Gilts yield nearly two full percentage points more than their German equivalent. That is a rare premium which compares with a differential of only around 50 basis points when the market peaked. The water may still be choppy but fundamental value is discernible on the shore.

Wolseley

Wolseley's addition to equity shows no sign of abating. Yesterday's placing of shares to fund a US acquisition is its third in little over a year. The company has raised around £220m - equivalent to more than a tenth of its market capitalisation - in that time by selling shares to institutional investors or the vendors of businesses it bought. Since Wolseley is one of the most tightly-held stocks in the FT-SE 100 index, the market is hardly awash with paper as a result. Even so, one might question whether Wolseley's aversion to debt is really necessary.

With the proceeds of the latest placing tucked away, the company will have around £80m net debt against shareholders' funds of £560m at the

last count. While borrowings could rise in line with working capital as organic growth comes through, gearing of around 30-40 per cent would not look irresponsible at this point in the business cycle. The stronger argument is that equity is a perfect match for the kind of risks being assumed through acquisitions. But it takes a leap of logic to conclude that all acquisitions should be immediately funded by a matching issue of shares.

True, Wolseley's sequence of placings has saved it the bother and expense of a rights issue. But shareholders not on the list of privileged institutions have seen their stake in the business diluted over time. Given its relatively small circle of institutional investors - and exemplary record of growth - there is no question of shareholder revolt. As Wolseley matures and increases its international reach, though, old habits may have to change.

Anglo American

The 55 per cent increase in net assets per share reported by Anglo American Corporation is indeed striking. But it is also a reflection of the strength of the Johannesburg stock market on which many of its investments are quoted. That strength contributed to earnings as well, since high stock market values allowed Anglo to raise more from sales of investments. The £250m increase in the surplus on such sales offset setbacks in both coal and platinum. One issue raised by Anglo's results is thus whether buying in anticipation of the change in government pushed the stock market to levels that now limit its attraction.

Having more than doubled in the final quarter of last year, Anglo's share price needs more good news to propel it forward. The group may have difficulty repeating last year's strong performance in diamonds, but there is a chance of gold adding some further lustre. Though the dollar price of gold has been slow to respond to the revival of inflationary fears in the US, a weaker rand and careful cost containment have helped boost mining margins. One risk is that high wage demands following the elections could undermine these cost advantages. It would help if the international bullion price were to show signs of stirring. Since they are subject to the vagaries of the financial rand, foreign investors in particular may increasingly need comfort on this score.

Brown out of race to lead UK Labour party

By Philip Stephens, Political Editor, in London

One of the main contenders for the leadership of Britain's main opposition Labour party withdrew from the race last night - strengthening the position of the favourite, Mr Tony Blair.

Mr Gordon Brown, the Labour party's Treasury spokesman and a close friend and ally of Mr Blair's, bowed out of the race to succeed Mr John Smith, who died last month.

The Labour party leads the Conservative government by a wide margin in current opinion polls, and is seen to be well-placed to take power at the next general election, which must be held by spring 1997.

Mr Brown's decision means he will now give his full backing to

Mr Blair and will be guaranteed his current post of shadow chancellor of the exchequer.

It is understood in talks between the two men - the party's leading "modernisers" - Mr Brown has been promised the pivotal role in shaping policy in any future Labour government led by Mr Blair.

Mr Blair, whose political instincts are in tune with mainstream European social democracy, has strong electoral appeal in Britain's key southern constituencies which Labour must win to beat the Conservatives. Currently shadow home secretary, he has the overwhelming support of the shadow cabinet and of Labour MPs. A substantial majority of trades union leaders also support him.

If he wins the leadership, the

41-year-old Mr Blair could become the youngest party leader this century with only a token contest. One member of the shadow cabinet said last night that the party's choice was now "a formality".

Mrs Margaret Beckett, acting Labour leader, Mr John Prescott, shadow employment secretary, and Mr Robin Cook, shadow trade and industry secretary, are all potential contenders for the leadership. Mr Cook was last night understood to be keeping his options open and Mrs Beckett has said she will not reveal her intentions until after the European elections on June 9.

But senior figures in the party last night appeared confident that both Mr Cook and Mrs Beckett would decide eventually not to run against Mr Blair.

That left Mr Prescott, the standard-bearer of the party's "traditionalist" wing, with a difficult decision of whether to contest the leadership or whether to stand against Mrs Beckett for the post of deputy leader.

Mr Brown said last night that he had taken his decision to clear up "the confusion" over whether he would fight Mr Blair for the leadership. He had only one consideration in mind - "to ensure the election of a Labour government to improve and regenerate our country".

He had brought forward his announcement to prevent speculation about his position detracting from the party's European elections campaign.

Bonds drop further

Continued from Page 1

lead to monetary tightening.

The June contract of the UK government bond future traded on Liffe, the London futures and options exchange, broke through 100 and fell as low as 99½ before closing around 99½, down 1½.

In spite of a small reduction in the Bundesbank's securities repurchase rate, which fell 5 basis points to 5.15 per cent, this rate is used as a benchmark for interest rates in Germany.

German government bonds were also sold following remarks by Mr Guntram Palm, a member of the Bundesbank's policy making council, indicating that further interest rate cuts in the near term were unlikely.

However, German bonds did not suffer as much as other European bonds. The June Bund futures contract on Liffe fell to around 92.30, down 0.54. Bond markets in Scandinavia and southern Europe were also badly hit.

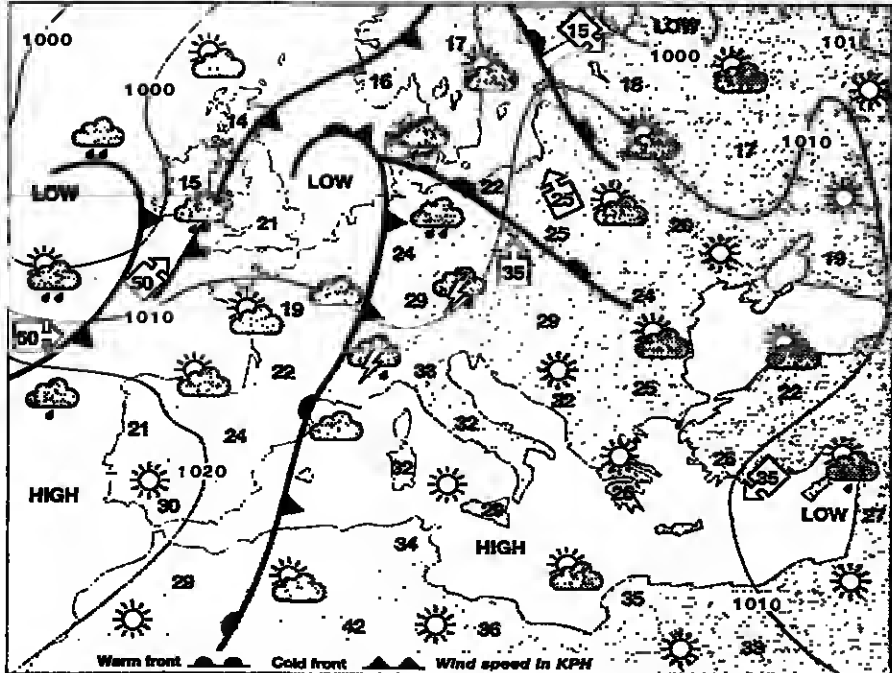
FT WEATHER GUIDE

Europe today

A frontal zone over Germany, marking the boundary between hot air over the continent and much cooler air in the west, will produce thunder storms over the Alps and much of Germany. Some thunder storms could be heavy with hail. The Netherlands, Belgium and western France will have sunny spells and scattered showers. The UK will have sunny periods in the east. A frontal system will approach western coast bringing cloud and rain to Ireland, Italy, Greece and eastern Europe will be sunny and dry. Most of Scandinavia will be cool and changeable with temperatures ranging from 10C in the north to 20C in southern Sweden.

Five-day forecast

Western Europe will become cooler as depressions and frontal systems cross the region. The Alps, the Balkans and much of eastern Europe will be near a boundary between cool and hot air and several thunder storms can be expected. Greece and Italy will continue warm and sunny with isolated thunder storms in central areas. Southern Scandinavia will become cooler.



TODAY'S TEMPERATURES

Location	Temperature
Abu Dhabi	34
Accra	32
Algiers	33
Amsterdam	18
Athens	33
Atlanta	31
B. Aires	23
Bombay	31
Brussels	18
Buenos Aires	30
Cairo	32
Cape Town	21
Cardiff	16
Casablanca	21
Chongqing	33
Cologne	28
Dallas	28
Delhi	38
Dubai	32
Dublin	18
Dzhanibek	31
Edinburgh	17
Faro	17
Frankfurt	17
Geneva	27
Gibraltar	28
Glasgow	18
Hamburg	21
Helsinki	18
Hong Kong	32
Honolulu	29
Istanbul	24
Jersey	17
Karachi	36
Kuala Lumpur	31
Las Vegas	24
London	18
Luxembourg	21
Lyon	18
Madrid	22
Manila	33
Moscow	28
Mumbai	32
Myanmar	29
Nairobi	24
Naples	28
Nassau	24
New York	23
Nice	23
Nicosia	22
Osaka	21
Paris	21
Perth	28
Prague	22
Rangoon	29
Riyadh	33
Rio	31
Rome	29
S. Francisco	21
Seoul	21
Singapore	29
Stockholm	21
Stockport	21
Sydney	19
Taipei	28
Tampere	18
Tel Aviv	29
Tokyo	27
Toronto	17
Vancouver	18
Venice	29
Vienna	23
Warsaw	23
Washington	22
Wellington	10
Winnipeg	22
Zurich	29

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Floating Rate Notes due 2004
£4,600,000
Mezzanine Secured
Floating Rate Notes due 2004
Issue Price 100.00 per cent.
Lead Manager
Kleinwort Benson
February 1994

3i International B.V.
£150,000,000
Floating Rate Notes due 1999
Issue Price 100.00 per cent.
Joint Lead Manager
Kleinwort Benson
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INTERNATIONAL COMPANIES AND FINANCE

GEC Alsthom buys rail operation from Preussag

By John Riddling
in Paris

GEC Alsthom, the Anglo-French transport and engineering group yesterday said it had taken control of Linke-Hofmann-Busch, the German rail equipment manufacturer.

GEC Alsthom said it bought 51 per cent of the shares from Preussag for an undisclosed sum. The acquisition is the first by the Anglo-French joint venture in the railway sector in Germany and is aimed at strengthening its

presence in European markets. "It fills an important gap for us," the company said. GEC Alsthom has large operations in Germany in two other core divisions - power generation and power distribution. GEC Alsthom has sales of about DM1.2bn (\$706m) in Germany and employs about 4,000.

LHB, which has annual sales of about DM450m and a workforce of 2,000, is based in Satzger, near Hanover. It is involved in the design and manufacture of trains, trams, electric and diesel locomotives,

freight wagons, bogies and couplers.

LHB participates in the manufacture of the ICE, the high-speed train which has been developed and built by a consortium led by Siemens. The ICE is the principal European competitor for the Train à Grande Vitesse, built by GEC Alsthom.

GEC Alsthom said the deal would extend its European manufacturing presence. Under the terms of the deal, Preussag will retain 49 per cent of LHB's capital.

Prodi may stay on as interim Iri chairman

By Robert Graham
in Rome

The resignation of Mr Romano Prodi as chairman of Iri, the Italian state holding company, has given the Berlusconi government a free hand to reshape and accelerate privatisation policy.

Mr Prodi resigned on Tuesday after the Iri board had approved 1993 results which showed losses had more than doubled to L10,230bn (\$6.4bn). Yesterday the four other members of the board announced their resignations.

The government has yet to accept the resignations. Mr Prodi indicated yesterday he would not change his mind. Iri has debts of L75,000bn, almost 5 per cent of GDP.

"I returned to Iri to deal with its finances and impose a restructuring plan with a view to privatisation. Now it is the time, after the presentation of the annual accounts, to hand over matters to the new government," Mr Prodi said yesterday.

Mr Silvio Berlusconi, the prime minister, commenting on the resignation yesterday said: "This is a problem which we still have to work on."

This suggests that Mr Prodi will stay on in an interim capacity until the June 30 shareholders meeting before formally stepping down. This would enable him to approve the privatisation of Ilva's special steel operations.

Iri became a public company with the treasury as the single shareholder in August 1992. At present the government appears inclined to appoint a new chairman whose basic task will be to act as a kind of "liquidator".

The chairman would sell off or re-distribute all worthwhile assets while the remainder would be gradually liquidated.

The procedure could be similar to that applied to Efim, the industrial holding company placed in liquidation in July 1992. However, government officials insist if such a procedure were adopted, they would seek to avoid the mistakes of Efim - in particular antagonising foreign creditors.

Endesa price fall clouds offerings

By Tom Burns
in Madrid

The issue price for the partial privatisation of Endesa, the state electricity utility, has fallen below expectations, raising doubts about future public equity offerings.

The offering in Endesa, which reduced the state holding by 9 per cent to 65 per cent, realised only Ptas144bn (\$1.06bn). This compared with Ptas200bn that had been anticipated when the disposal was planned in February.

"We've had really bad luck with the markets over the past three months and our subscrip-

tion closed on a particularly criminal day for equities," said Endesa.

The offer was priced at Ptas450 per share, a price that was set by Endesa's closing price in New York on Tuesday and which was down on its earlier Tuesday Madrid close of Ptas550.

Yesterday, as the Spanish stock exchange continued to fall, the utility's share price dropped further to Ptas400 in Madrid as a heavy volume of about 2m Endesa shares were traded.

The price falls came as a shock. In the past, equity offerings by Spanish public compa-

nies - including Endesa, which first tapped the international markets in 1989 - had been unqualified successes.

The only comfort for Endesa was that the offering, which was co-ordinated by Goldman Sachs, had performed somewhat better in its domestic retail tranches, where the offer was 3.25 times subscribed with 200,000 applications for an average of 100 shares each.

The utility had purposely weighted the offering towards Spanish investors, and the demand from domestic retailers meant that it was able to exercise its clawback option and reduce shares offered to

institutions by 16 per cent. Analysts in Madrid said yesterday that the ill-fortune surrounding Endesa's equity offer was bound to influence other public disposals that are in the pipeline.

These include an equity offering by Repsol, the oil, gas and chemicals group, which is tentatively planned for the end of the year, and possibly one by Argenta, the state banking corporation.

"It's quite clear that partial privatisations are no longer a well spring on which the government can rely," said Mr Juan Bostos, chief executive of brokers Ibersercurities.

Polish bank to be sold this year

By Christopher Bobinski
in Warsaw

Bank Przemyslowo Handlowy (BPH), one of Poland's largest banks, is to be privatised by the end of this year through a stock exchange flotation of 50 per cent of the equity, the finance ministry announced.

The sale of the Krakow-based bank will be followed next year by an invitation to foreign and domestic investors to take up a large share of the remaining equity in 1995. Three per cent of the bank's shares are to be offered to management and employees.

The bank, which reported a

772bn zloty (\$35.5m) net profit last year on a balance sheet worth 33,071bn zlotys, was originally to have been sold by the middle of this year to a strategic investor and through a public share offer.

However, this method was used for the sale earlier this year of Bank Slaski, the last state-owned bank to be privatised. It led to the resignation of Mr Marek Borowski, finance minister, and the ministry's top banking officials, and put a question mark over the BPH disposal.

Critics charged that Bank Slaski had been sold at an excessive discount.

Meanwhile, Mr Janusz Quandt, the BPH chairman who has in the past five years built a nationwide retail network and who sees the bank combining this with an investment banking role, has been urging for a capital increase for the bank through a sale of new shares to selected domestic investors. He has argued against having one strategic investor buy into the bank.

The finance ministry has chosen to auction half of the bank's equity through the bourse and then search for a strategic investor once a market price has been established for the BPH.

Kingfisher sales slow

By Neil Buckley

Shares in Kingfisher the UK retailing group fell a further 21p to 522p yesterday, after it said sales growth in the first quarter of this year had been slower than in 1993.

Kingfisher's shares have fallen from 778p at the end of December, amid City nervousness about Kingfisher's strategy under the chairmanship of Sir Geoffrey Mulcahy.

Sir Geoffrey's comments to the annual meeting yesterday did little to allay those fears. He said sales in two of Kingfisher's businesses had fallen, although gross margins were generally improving.

Granada Group eyes TV takeover target

By Raymond Snoddy

Granada Group, the UK television group, has identified Yorkshire-Tyne Tees as its next target if, as seems likely, the government decides on a further liberalisation of the rules on television ownership.

Mr Gerry Robinson, chief executive of the broadcasting, leisure, rental and business services group, yesterday identified Yorkshire as a possible acquisition target.

The group also announced a 51 per cent increase in pre-tax profits to £103m (\$155m).

A takeover of Yorkshire would create a greater north-

ern television empire, plus London Weekend Television - acquired for about £76m early this year.

The government is looking into the issue of cross-media ownership and plans to report later this year.

Mr Alex Bernstein, Granada chairman, said yesterday the group's principal businesses had improved profits in the 26 weeks to April 2, with £11.5m of the growth in profit before interest coming from organic growth. A total of £27.1m came from acquisitions, mainly from Sutcliffe Catering and Spring Grove Services. *Lex, Page 14*

Deutsche Telekom takes £50m Astra stake

By Raymond Snoddy

Deutsche Bundespost Telekom, the German state-owned telecommunications and post office group, has bought a large stake in Astra, the satellite television company, in a deal believed to be worth £50m (\$75.2m).

The German company has bought 25 per cent of the privately-held share capital of Societe Europeenne des Satellites - the Astra holding company.

Two-thirds of SES is held by private European investors including Thames Television, which along with the Financial Times is a subsidiary of Pearson, the media and entertainment group.

The other third of SES is owned by Luxembourg state-

group reported a net loss of DM2.9bn, Telekom said yesterday. Group sales rose by 9.3 per cent, to DM59bn from DM54bn, reflecting a surge in business in eastern German states where turnover rose to DM4.5bn from DM3.5bn.

The law for privatisation is expected to come into force in 1995, providing for the trans-

formation of Telekom into three operating companies. It will be Germany's biggest privatisation to date.

The first tranche in the telecommunications arm will be offered in mid-1996 with a market value of DM10bn-DM15bn. The market capitalisation of the group as a whole is set to be about DM60bn.

SES could be worth more than £50m. Pearson paid £100m for Thames, and in addition to the SES stake, the deal included the company's continuing programme supply business with Independent Television, its Teddington studios, programme library and stakes in satellite channels.

SES has three Astra satel-

ites broadcasting 50 television channels to cable television networks and satellite dishes across western Europe. A fourth satellite capable of broadcasting a further 16 channels is due to be launched in September.

SES revenues in 1993 increased 23 per cent over 1992 to £128m. Profits rose 19 per cent to £55m.

Finnish lift maker in further big disposal

By Christopher Brown-Humes
in Stockholm

Sweden's Kone yesterday extended its concentration on its core elevator operations by announcing the sale of Kone Wood, a supplier of wood handling equipment, to Andritz AG of Austria.

The sale, on undisclosed terms, is Kone's third big disposal in the last nine months. Last September it sold MacGregor-Navire, the world's leading supplier of shipboard cargo handling equipment, to

Sweden's Incentive for about SEK500m (\$63.3m) and in March it sold its cranes unit for more than FM600m (\$110m).

Kone's majority owner, the Herlin family, recently rejected an offer from Germany's Thyssen group for its entire shareholding. It controls about 40 per cent of Kone's capital and 70 per cent of the votes.

Kone, one of the world's three leading elevator manufacturers, says its remaining non-core activities, Kone Instruments, GS-Hydro and a steel foundry are also for sale.

Loss at Postipankki widens to FM163m

By Christopher Brown-Humes

Pre-tax losses at Postipankki, the Finnish state-owned banking group, rose to FM163m (\$29.6m) from FM101m in the first four months as higher costs and reduced income offset a reduction in credit losses.

Mr Seppo Lindblom, chief executive, said the bank would make another loss in 1994, after last year's FM353m deficit.

Rising long-term interest rates and reduced foreign exchange income helped lower

group income to FM1.20bn from FM1.28bn. The fall would have been greater but for last year's purchase of Savings Bank of Finland assets, although costs associated with the acquisition helped drive expenses up 30 per cent to FM934m. Credit losses fell to FM369m from FM599m.

Last week Unitas, Finland's second largest banking group, said it had cut pre-tax losses by 18 per cent to FM444m in the first four months, in spite of a 15 per cent increase in credit write-offs to FM976m.

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Partial operating result	370	290	+27.6
Net income on financial operations	127	96	+32.3
Provision for risks	168	116	+44.8
Operating result	323	268	+20.5

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Warrants entitling the holders
to purchase ordinary shares of HK\$0.50 each in
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10th February, 1995
("Warrants")

ANNOUNCEMENT

The directors of CITIC Telecommunications Limited are aware that the register of members of Hong Kong Telecommunications Limited ("HK Telecom") will be closed from (Hong Kong time) 6th June, 1994 to 10th June, 1994, both days inclusive, (the "Book Close Period") for the purpose of determining the entitlements to HK Telecom's final dividend of HK\$0.375 per HK Telecom ordinary share for the year ended 31st March, 1994. Holders of the Warrants are reminded that according to the terms and conditions of the Warrants, the right to exercise the Warrants shall be suspended if the Exercise Date (as defined in the conditions endorsed on the Warrant certificates ("Conditions")) shall fall less than 10 Business Days (as defined in the Conditions) prior to the first day of the period during which the register of members of HK Telecom is closed or during the Book Close Period.

Accordingly if an Exercise Date relating to the exercise of any Warrants shall fall within the period from 24th May, 1994 to 10th June, 1994, such Exercise Date shall be postponed until the first Business Day after the expiry of such period.

Holders of the Warrants are further reminded that according to the terms and conditions of the Warrants, holders of Bearer Warrants who have delivered duly completed Exercise Notice (as defined in the Conditions) containing payment instruction for the Exercise Price (as defined in the Conditions) and Exercise Expenses (as defined in the Conditions) to Euroclear or Cedeul not later than 10:00 a.m. on 20th May, 1994 (Brussels time or Luxembourg time, as the case may be) and registered holders of Registered Warrants who have delivered duly completed Exercise Notice, together with the Warrant certificate(s) and payment for the Exercise Price and Exercise Expenses to Central Registration Hong Kong Limited, the Registrar, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 10:00 a.m. on 20th May, 1994 (Hong Kong time) will be registered as a shareholder of HK Telecom before the register of members of HK Telecom closes and will be qualified for the proposed final dividend of HK Telecom.

By order of the Board
Amy Wong Hing Hung
Secretary

Hong Kong, 20th May, 1994

3i International B.V.
\$150,000,000
Guaranteed floating rate
notes 1999

The notes will bear interest at 5.4375% per annum for the interest period 31 May 1994 to 31 August 1994. Interest payable on 31 August 1994 will amount to \$137.05 per \$100,000 note and \$1,370.55 per \$1,000,000 note.

Agent: Morgan Guaranty
Trust Company
JPMorgan

3i International B.V.
(Formerly known as Investors in Industry International B.V.)
**£125,000,000
GUARANTEED
FLOATING RATE NOTES 1994**

FOR THE THREE MONTH PERIOD
31ST MAY, 1994 TO 31ST AUGUST, 1994

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 5 7/8 per cent. per annum and that the interest payable on the relevant interest payment date, 31st August, 1994 against Coupon No.27 will be £135.48 from Notes of £10,000 nominal and £13.55 from Notes of £1,000 nominal.

S.G. WARBURG & CO. LTD.
(Agent Bank)

INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Net earnings at Anglo American rise 23%

By Mark Sizeman
in Johannesburg

Anglo American, South Africa's largest corporation, yesterday reported a 23 per cent increase in net earnings for the year ending in March to R2.98bn (\$543m), up from R2.42bn a year ago.

Net income after tax rose 19 per cent to R2.34bn from R1.93bn, while attributable earnings rose to R1.68bn from R1.40m, a gain of 20 per cent. A final dividend of 300 cents was declared, bringing the total for the year to 385 cents, up from 345 cents last year and above market expectations of around 370 cents.

The company's net asset value after the dividend

Anglo American: Net earnings by sector (Rand m)			
Sector	1994	% of total	1993
Mining finance	754	25.3	617
Gold & uranium	400	13.4	277
Diamonds	642	21.5	483
Coal	134	4.5	248
Platinum & other mining	127	4.3	155
Industry & commerce	529	17.7	381
Financial services & property	288	9.6	258
Investment surpluses & other net income	110	3.7	47

Source: Company report

recorded a substantial 53 per cent jump to R54.98bn, reflecting the continued buoyancy of the Johannesburg stock exchange.

The results have been modified in accordance with the international moves towards greater accounting comparabil-

ity and provide for stricter treatment of extraordinary items, but the effect on earnings figures has not been material, resulting in a 3 per cent increase in 1994's net earnings and a 2 per cent decline in 1993's restated figures.

Of the group's divisions,

mining finance remained the most profitable, accounting for R754m of total net earnings, up from R617m last year, while gold rose to R400m from R277m on the back of the higher gold price.

Industry and commerce recorded a 17.7 per cent increase to R529m from R381m, while diamonds rose to R642m from R483m, but platinum and other mining declined slightly to R127m from R155m. Coal's contribution also dipped to R134m from R248m, although this was largely a reflection of the disappearance of last year's R114m tax rebate from the figures.

Mr Julian Ogilvie Thompson, chairman, said he was confident the earnings improve-

ment would carry through to the current year as a result of the continued improvement in both the South African economy and the international trading environment. He also expressed confidence in the country's new government, praising both its "welcome commitment to reconciliation" and President Nelson Mandela's "commitment to prudent economic policies".

However, he refused to be drawn on a time frame for the corporation's planned unbundling of its interests in rival mining houses Johannesburg Consolidated Investments and the anticipated sale of some of that company's largest divisions to black shareholders.

See Lex

Ethane deal prompts ICI Australia to plan pipeline

By Nikk Tait in Sydney

ICI Australia, a subsidiary of the UK-based group but traded separately on the Australian stock exchange, looks set to go ahead with a A\$250m to A\$300m (US\$184m-US\$221m), ethane pipeline connecting the South Australia gasfields to its Botany Bay petrochemical plant.

The company has reached an outline ethane supply agreement with Santos, the Adelaide-based oil and gas group, for 10 years. The volume of ethane concentrate would be around 310,000 tonnes a year and, according to Santos, "based on the current structure of prices in the oil futures market, the price formula agreed is economically equivalent to the current natural gas price with CPI indexation".

The deal also includes a possible extension for a further five years, on terms to be negotiated at that stage. The two companies aim to sign a formal contract within two months, and ICI hopes to set up similar arrangements with other producers in the Cooper Basin.

ICI Australia said yesterday that it hoped to construct the 1800km pipeline between Moomba and Botany, which would come into operation in May 1996. The cost of the pipeline is put at more than A\$200m, and modifications to the Botany plant will take total project costs to more than A\$250m.

The new pipeline will follow a similar route to the existing Moomba-Sydney pipeline, which is being sold by the federal government to AGL, the Australian utility, Canada's Nova and Petros, the state-owned Malaysian oil company, Commonwealth Bank of Australia has sold its 60 per cent shareholding in stock-broking firm Burdett Buckridge & Young for an undisclosed sum. Reuters reports were US institutional stock-broking firm Jefferies Group and Hong Kong-based joint venture investment bank Asian Capital Partners.

Academics take issue with Nasdaq spreads

The long-simmering debate over the quality of US stock markets heated up last week when an academic study sharply criticised dealers on the Nasdaq market for maintaining unnecessarily wide spreads between buy and sell prices.

Wide spreads are bad for investors, because they denied the opportunity to pay a little less when buying a stock, or receive a little more when selling. Dealer firms like wide spreads, because they translate into higher profits - the wider the spread, the more money the dealer can make on the difference between the price he pays and the price at which he sells.

The study - conducted by two college finance professors, William Christie of Vanderbilt University and Paul Schultz of Ohio State University - found that for 71 of the 100 most actively traded Nasdaq stocks of 1991, dealers rarely, if ever, listed stock quotes ending in an odd-eighth of a dollar when posting bid (buy) and offer (sell) prices on their computer screens.

Instead of using the full range of eighths, such as $\frac{1}{8}$, $\frac{1}{4}$, $\frac{3}{8}$, $\frac{1}{2}$, $\frac{5}{8}$, $\frac{3}{4}$, the study found that dealers almost always quoted spreads of even-eighths, such as $\frac{1}{4}$, $\frac{1}{2}$, $\frac{3}{4}$ or a whole dollar. In contrast, spreads quoted on the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX) were found to

be consistently narrower than those on the Nasdaq, with the exchanges' "specialists", or dealers, regularly using odd-eighths as well as even-eighths when quoting prices.

Nasdaq, the large screen-based dealer market, run by the National Association of

dealers in the market. It argues that tighter spreads would, by cutting into dealers' profits, deter dealers from making a market in many stocks and reduce liquidity.

While this argument makes sense when discussing the liquidity of small, lightly-

traded stocks, it carries less weight when it comes to the biggest stocks on the Nasdaq system, like Apple Computer, Intel and Lotus Development.

Even with these three giants, which in theory should attract a multiplicity of dealers eager to compete for business, the Christie-Schultz study found that spreads were almost never quoted in odd-eighths.

The study on Nasdaq spreads, however, does raise the wider issue of the quality of US stock markets, and whether they provide investors with the best possible service.

Mr Jimmie Peak, professor of finance at the University of Northern Colorado and a long-time observer of US stock market practices, says dealers are able to keep spreads wide to maximise their profits because the systems are designed that way.

"As long as the trading systems are built by entities

A study which sharply criticised dealers on the screen-based Nasdaq market has reopened the issue of the quality of US stock markets, writes Patrick Harverson

Securities Dealers (NASD) is the second-largest forum for trading equities in the US after the NYSE, and its system of competing dealers posting buy and sell prices on computer screens has been duplicated by exchanges around the world, including London.

The study has attracted attention because the authors not only criticised the wide spreads posted by Nasdaq dealers, but also argued that the extremely rare use of odd-eighths quotes suggested dealers may be working in concert to keep spreads wide.

"Despite extensive research, there is little explanation as to why as many as 50 dealers, all in competition, would neglect one-half of all possible price options if not for implicit collusion," said Mr Christie and Mr Schultz.

The study was immediately seen as providing support for the long-held view of floor-based exchanges that their sys-

tems of allowing the flow of orders to set prices - with specialists ready to step in and participate in a trade only when necessary - provides investors with a better service than Nasdaq's system of letting dealers set prices to attract orders. Although the

NYSE declined to comment, sources at the exchange said privately that the findings proved the Nasdaq system did not encourage competition.

The NASD quickly attacked the study's findings, arguing that there was no evidence of collusion between dealers. While he did not dispute the study's facts on spread sizes, Mr Richard Ketchum, vice-president, said the wide spreads were a reflection of one of Nasdaq's strengths, "a great deal of liquidity at a single price".

This has always been the main argument put forward for the Nasdaq system: that what investors lose from wider spreads, they more than get back from the guarantee of liquidity afforded by the multiple dealer system.

By allowing dealers to maintain, and profit from, spreads of a quarter of a dollar, the NASD says it is ensuring that there will always be enough

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April 1994

This announcement appears as a matter of record only

Residential Property Securities No. 1 PLC

£200,000,000

Mortgage Backed Floating Rate Notes 2018

The rate of interest for the three month period 31st May, 1994 to 31st August, 1994 has been fixed at 5.50 per cent. per annum. Coupon No. 25 will therefore be payable on 31st August, 1994 at £1,411.51 per coupon.

Aggregate interest charging balances of Mortgages redeemed during the previous interest period: £3,433,274.17

Aggregate interest charging balances of Mortgages redeemed as at 31st May, 1994: £226,398,719.52

The aggregate principal amount of Notes outstanding as at 31st May, 1994: £82,800,000

S.G. Warburg & Co. Ltd.

Agent Bank

The Mortgage Bank and Financial Administration Agency of the Kingdom of Denmark

(Kongeriget Danmarks Hypothekbank og Finansforvaltning)

U.S. \$100,000,000

Guaranteed Floating Rate Notes due 2005 unconditionally and irrevocably guaranteed by

The Kingdom of Denmark

For the six month interest period 1st June, 1994 to 1st December, 1994 the Notes will carry a Rate of Interest of 5 per cent. per annum, with Coupon Amounts of U.S. \$127.08 and U.S. \$2,541.67 per U.S. \$5,000 and U.S. \$100,000 Notes respectively. The relevant Interest Payment Date will be 1st December, 1994.

Bankers Trust Company, London

Agent Bank

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INTERNATIONAL CAPITAL MARKETS

Investors stay on sidelines despite higher yields

By Gernot Middelmann in London and Frank McGurty in New York

European government bonds took another tumble on continued futures and cash selling, and although long yields have risen sharply in recent days, they failed to lure investors back into the market.

"It is increasingly unclear what is pushing the markets down," said Mr Peter Kerger, head of futures and options at NatWest Markets in Frankfurt, but after the recent heavy losses, "there is a lot of fear, and a self-feeding downward momentum in the market."

In addition to technical selling in the futures pits, traders reported significant sales of cash bonds by institutions opting to end the pain of watching their long-term positions go deeper into the red.

"People who have held on and on since February are fed up and have begun offloading long-making positions," said one dealer.

Higher than expected German production data and the release of a strong US National Association of Purchasing Management index also pressured prices.

German bunds opened slightly higher on early short-covering after Tuesday's sell-off. The Bundesbank lowered its securities repurchase rate by five basis points to 5.15 per cent but that failed to give prices a lift, especially after earlier rumours of a larger cut. Stronger-than-expected industrial production further pressured prices, fueling fears that economic recovery might fuel inflation pressures.

Contradictory comments from Bundesbank council members added to the market's confused state. While Mr Guntram Palm, president of the state central bank of Baden-Württemberg, said that recent cuts in the discount and Lombard rates mark at least a stop-making position, "maybe even a turning point" in monetary

policy, Mr Olaf Sievert, president of the state central bank of Saxony-Turingia, said that "a definite end of the monetary easing has by no means been indicated, and has certainly not been agreed upon".

Activity is expected to be calmer today with large parts of Germany closed for the Corpus Christi holiday.

GOVERNMENT BONDS

The June bond future fell to around 93.00, down 0.54 points on the day. France heavily underperformed Germany with the June notional bond contract on Mkt falling by 1.16 point to 116.56.

Plagued by inflation fears and weakness in neighbouring markets, UK gilts were one of the day's worst performers.

The June long gilt futures contract fell through the psychologically important 100 level - the lowest level for the

front-month contract since January 1993 - to close around 99.9, down 1.5 on the day.

Traders reported selling of cash bonds by institutions and no buying interest, even though current yields are seen to offer good value. The 10-year gilt currently yields 8.75 per cent, some 191 basis points above its German counterpart.

Europe's peripheral markets also fell sharply, with Denmark and Sweden again severely weakened by heavy foreign selling, which also weakened their currencies. In Italy, the June 27/27 contract dropped 1.13 points to 107.04 and in Spain, which faces a government bond auction today, the June bond future fell 0.97 points to 93.71.

Even in Japan, which has held up well recently, prices were hit by stronger economic data, causing the September contract to fall by 1.11 JGB points in Tokyo, and another 0.49 points in London to 110.82.

US Treasury bonds suffered a further setback yesterday morning as traders reacted badly to fresh signs of inflation.

By midday, the benchmark 30-year government bond was 1/2 lower at 85 1/2, with the yield rising to 7.45 per cent. At the short end, the two-year note was down 3/4 at 99 1/2, to yield 6.027 per cent.

The market's fear of inflation was reignited when the National Association of Purchasing Management released the results of its May survey. The overall index came in at 57.7, unchanged from the April reading and a bit higher than the consensus forecast of 57. But the prices index, which is viewed by economists as an accurate indicator of inflation, was up sharply at 71.5, against 63.2 the previous month.

The data showed economic expansion over the past six months was finally creating shortages of raw materials, which were feeding into prices paid by manufacturers.

As a result, bonds across the board lost ground quickly. Longer-dated securities, whose value is eroded by inflation, suffered the worst damage, dropping by nearly 3/4 points within minutes of the mid-morning announcement. Later, prices stabilised and recovered, amid speculation that the Federal Reserve was making an unannounced purchase of three-year and five-year notes.

The release of the NAPM survey, one of the most important of the month, overshadowed one shred of favourable economic news on offer yesterday. The Commerce Department said construction spending had risen 0.6 per cent in April, against expectations of a 1.0 per cent gain.

As the afternoon session opened, traders were already adjusting their positions ahead of Friday's crucial data on May employment.

An increase in non-farm payrolls which exceeds the consensus estimate of 285,000 could send bonds into a fresh tail-spin.

News Corp relies on Lords ruling

By Antonia Scharpe

Lawyers acting for News Corp. the media, film and publishing group controlled by Mr Rupert Murdoch, are relying on a landmark ruling by the House of Lords to limit their client's liability in a potentially costly dispute stemming from the publication of an erroneous notice.

The notice, published in the Financial Times last December on behalf of a subsidiary of News Corp, advised holders of News Corp preference shares, which were exchangeable into shares which the company had bought in Pearson in the 1980s, that they were also entitled to shares in Royal Doulton, the fine china manufacturer, as part of the exchange property.

When Pearson, the media, banking and entertainment group which publishes the Financial Times, demerged Royal Doulton last year, it offered its shareholders one Royal Doulton share for every 10 held in the parent.

At the time, dealers estimated that holders of News Corp's preference shares, denominated in sterling and guineas, and News Corp's D-Mark convertible bonds would receive 57m Royal Doulton shares worth £15m.

However, in January, News Corp stunned the market with another notice which said it was taking legal advice over whether the Royal Doulton shares were part of the exchange property. In February, News Corp said holders were not entitled to the Royal Doulton shares because, in its view, there had not been a change in the composition of the exchange property.

Since then, a number of investment banks have been seeking compensation from News Corp for the financial losses which they and their cli-

ents incurred as a result of the first notice. The losses could run into millions of dollars.

Claimants say while News Corp's London-based solicitors, Allen & Overy, are taking a sympathetic approach to claims by individuals who were holders at the time of the erroneous notice, they are taking a much tougher line with those who dealt in the shares as a result of the notice, citing the legal precedent set in Caparo Industries v Dickman.

In 1990, the House of Lords ruled that auditors had no "duty of care" to individual shareholders or other users of accounts, and only to the company and to shareholders as a collective body.

Allen & Overy are drawing an analogy between the Caparo ruling and News Corp's position since the company gave notice to persons registered as holders of the preference shares, not the whole market. Therefore, in their view, News Corp's duty is only to them and not to anyone else who relied on the notice to make investment decisions.

The claimants, some of whom are also believed to be contesting News Corp's claim to the Royal Doulton shares, say it is by no means clear that the Caparo principle will apply in News Corp's case. For example, News Corp had called the issues around the same time as the erroneous notice was published, forcing the market to act.

News Corp declined to comment on the matter apart from to confirm that it was corresponding with a number of people who had written to Allen & Overy to make claims.

"We don't feel that it will be useful for us to make general statements about the claims in the press in view of this ongoing correspondence," News Corp said.

Banks follow corporates into short-dated dollar sector

By Peter John

Demand for short-dated dollar denominated debt finally persuaded some banks to follow the lead taken by the big corporates.

Deutsche Bank and J.P. Morgan both tapped the market, pushing the total raised via two-year and three-year dollar debt since AT&T's successful issue last week to \$2bn.

Syndicate managers at the two banks were nervous about whether there was still enough appetite, but said they had been persuaded to issue by other banks who were continuing to see strong demand from continental Europe.

Private investors who had liquidated their holdings in

long-dated bonds to escape from volatile price moves at that end of the yield curve have recently been looking for a home for their dollars.

J.P. Morgan served up the big deal of the day, raising \$300m via three-year paper priced to yield 11 basis points

INTERNATIONAL BONDS

above Treasuries. When the syndicate broke, the spread on the bonds widened to 14 basis points on the bid and some rivals argued that that niche had already been saturated and the US bank had come to the market too late.

Syndicate managers were

also bemused that a bank with such a high-profile name would need to joint-lead the issue with Morgan Stanley.

J.P. Morgan said its banking arm was keen to maintain impartiality over the choice of syndicate managers and that Morgan Stanley had also bid aggressively for the business.

In its view, the three-year debt offered a coupon of 6.5 per cent, compared with only 6 per cent for the two-year area, and demand was still strong.

Deutsche Bank chose the two-year maturity for its \$200m issue which was priced to yield 5 basis points over Treasuries and which maintained the spread after trading began.

The bank, which arranged the issue with Goldman Sachs,

NEW INTERNATIONAL BOND ISSUES									
	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner		
Borrower									
US DOLLARS									
Morgan & Co.	200	6.50	98.80	Jun 1997	0.1575	+11	84/94-97 J.P. Morgan/Morgan Stanley		
Deutsche Bank Finance	200	6.125	99.80	Jul 1996	0.125	+5	(73/94-96) Deutsche Bank London		
Hyundai Int'l Merchant Bank/Jeju	60	6.0	100.00	Jun 1999	0.27	-	KBS International		
YEN									
POSCO	150n	3.5	100.00	Jul 2001	0.275	-	ISJ Asia		
ITALIAN LIRE									
Chetiventi	400n	2.50	100.00	Dec 1999	2.50	-	Morgan Stanley Int'l.		
SWISS FRANC									
Suissefondes LfG+	100	5.125	102.00	Feb 1997	standard	-	Merill Lynch Capital Mkts.		

Final terms and non-callable unless stated. The yield spread over relevant government bonds at launch is applied by the lead manager. *Private placement. *Convertible. *Floating rate note. R: fixed rate option; fees are shown at the re-offer level. a) Puttable in Jun 97 at par. b) 6-month Libor +45bp. c) Floating within a week. Coupon premium indicated at 10% and yield 7.75%. Callable after 2 yrs with one yr of 140% protection; at standard value thereafter. d) Short 1st coupon.

the demand from our own investors."

Elsewhere, Olivetti raised £400bn through a five-year bond convertible into ordinary

shares from January next year and offering an indicated yield of 7 to 7.5 per cent. The issue was targeted at Italian, US and European institutions.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS									
	Coupon	Red Date	Price	Yield	Week	Month			
Australia	9.00n	09/04	100.7700	-1.490	8.75	8.77			
Belgium	7.250	04/04	93.8000	-1.480	8.22	7.88			
Canada	6.50n	09/04	94.6500	-0.830	8.45	8.35			
Denmark	10.00n	12/04	90.4500	-1.820	8.99	7.92			
France	BTAN	05/08	104.3750	-0.500	6.68	6.38			
Germany	0AT	05/04	95.4900	-0.440	7.04	6.91			
Italy	8.50n	01/04	90.5000	-0.500	10.07	9.46			
Japan	No 119	08/08	106.5400	-0.700	3.29	3.08			
Netherlands	No 157	04/04	103.1200	-0.530	4.17	3.73			
Spain	10.50n	01/04	90.1200	-0.900	7.20	6.93			
UK Gilts	8.00n	08/08	102.7000	-1.000	10.02	9.82			
US Treasury	8.00n	10/08	101.2800	-0.700	8.46	7.78			
ECU (French Govt)	5.875	02/04	96.24	-0.532	7.22	7.19			
EU (German Govt)	6.00n	04/04	95.9400	-0.520	7.90	7.55			

London closing, New York mid-day. * Gross excluding London bid. * 1/2 p cent payable by nonresident. * Source: MMS International

US INTEREST RATES

Treasury Bill and Bond Yields			
	One month	Three month	Five year
Prime rate	7 1/4	7 1/4	7 1/4
Bank loan rate	8 1/4	8 1/4	8 1/4
Fed funds	4 1/4	4 1/4	4 1/4
Fed funds at intervals	4 1/4	4 1/4	4 1/4

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	111.00	111.00	-1.16	111.18	110.82	105,337	
Sep	111.02	111.02	-1.16	111.20	110.84	31,211	
Dec	111.02	111.02	-1.16	111.20	110.84	36,482	

LONG TERM FRENCH BOND OPTIONS (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	92.57	92.57	-0.52	93.15	92.15	18,843	
Sep	92.57	92.57	-0.51	93.15	92.15	69,183	
Dec	91.52	91.52	-0.87	92.14	91.32	94	

Germany

NOTIONAL GERMAN BOND FUTURES (LIFE)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	92.57	92.57	-0.52	93.15	92.15	18,843	
Sep	92.57	92.57	-0.51	93.15	92.15	69,183	
Dec	91.52	91.52	-0.87	92.14	91.32	94	

BUND FUTURES OPTIONS (LIFE) DM250,000 points of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	92.57	92.57	-0.52	93.15	92.15	18,843	
Sep	92.57	92.57	-0.51	93.15	92.15	69,183	
Dec	91.52	91.52	-0.87	92.14	91.32	94	

NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOM) (LIFE) DM250,000 points of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	92.57	92.57	-0.52	93.15	92.15	18,843	
Sep	92.57	92.57	-0.51	93.15	92.15	69,183	
Dec	91.52	91.52	-0.87	92.14	91.32	94	

UK GILTS PRICES

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	92.57	92.57	-0.52	93.15	92.15	18,843	
Sep	92.57	92.57	-0.51	93.15	92.15	69,183	
Dec	91.52	91.52	-0.87	92.14	91.32	94	

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFE) Lira 200m 100% of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	106.50	107.16	-1.08	106.88	106.80	64,830	
Sep	107.55	106.82	-1.25	107.70	106.80	22,456	
Dec	107.55	106.82	-1.25	107.70	106.80	28,899	

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFE) Lira200m 100% of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	106.50	107.16	-1.08	106.88	106.80	64,830	
Sep	107.55	106.82	-1.25	107.70	106.80	22,456	
Dec	107.55	106.82	-1.25	107.70	106.80	28,899	

Spain

NOTIONAL SPANISH BOND FUTURES (METF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	94.96	95.75	-0.87	95.08	95.05	99,899	
Sep	94.96	95.75	-0.87	95.08	95.05	115,432	
Dec	94.96	95.75	-0.87	95.08	95.05	18,949	

UK

NOTIONAL UK GILT FUTURES (LIFE) £250,000 30% of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	101.02	99.24	-1.02	101.14	99.17	78,552	
Sep	100.00	98.20	-1.04	100.10	98.11	42,952	
Dec	97.20	95.20	-1.04	97.30	95.21	0	

LONG GILT FUTURES OPTIONS (LIFE) £250,000 30% of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	101.02	99.24	-1.02	101.14	99.17	78,552	
Sep	100.00	98.20	-1.04	100.10	98.11	42,952	
Dec	97.20	95.20	-1.04	97.30	95.21	0	

EURO BOND FUTURES (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Jun	94.96	95.75	-0.87	95.08	95.05	99,899	
Sep	94.96	95.75	-0.87	95.08	95.05	115,432	
Dec	94.96	95.75	-0.87	95.08	95.05	18,949	

US

US TREASURY BOND FUTURES (CBT) \$100,000 30% of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
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COMPANY NEWS: UK

Wolseley expands with \$42m US buy

By David Wighton

Wolseley, the heating and plumbing merchant, is expanding its photographic equipment distribution business with the purchase of Calumet Holdings of the US for \$42.3m (£28m).

Wolseley is already the leading distributor of professional photographic equipment in Europe and believes the deal will make it the largest supplier in the world.

Mr Jeremy Lancaster, chairman, said that Chicago-based Calumet's expertise in mail order made it particularly attractive for Wolseley. "We are interested in developing mail order and believe it may be appropriate for some of our other businesses."

Calumet, which is being acquired debt-free, made an operating profit of \$5.06m on sales of \$62.8m last year. Mr Lancaster said that Wolseley

was paying about 12.5 times after tax profits and that the deal would enhance group earnings per share.

Wolseley, which has a policy of funding acquisitions with shares, is raising \$55m from a placing of shares with institutions at 74.5p. The new shares, which represent almost 2.9 per cent of the share capital, will also fund a number of further bolt-on acquisitions.

Wolseley first moved into photographic equipment distribution in 1986 when it acquired Grovewood Securities from BAT Industries. This included a leading distributor, Pelling, which Wolseley subsequently expanded with the purchase of its rival Keith Johnson.

Mr Lancaster said buying Calumet would improve the group's purchasing terms and make it a more attractive outlet for manufacturers.

See Lex

Harrods agrees deal with former director

By Neil Buckley

Harrods, the Knightsbridge department store, has "resolved amicably all differences" with its former managing director Mr Peter Bolliger, whose departure from the company in April provoked a bitter war of words.

Mr Bolliger insisted he had resigned after it became impossible for him to work with Mr Mohamed al-Fayed, the store's "hands-on" co-owner.

"He likes to feel he is running the store. He will even go behind a counter and cut salami," Mr Bolliger said at the time.

Harrods claimed Mr Bolliger had been sacked for his unsatisfactory performance, in particular in his running of the

Kurt Geiger shoe chain, and handling of the dismissal of a senior manager.

The company later said it was suing Mr Bolliger for breach of contract and lodged a writ with the High Court.

Mr Bolliger moved out of his Knightsbridge home and returned to his native Switzerland, but his solicitors have released a statement saying that "Harrods have resolved amicably all differences with Peter Bolliger on terms acceptable to all parties."

Neither side would comment on the terms of the agreement.

Harrods had also passed on a dossier detailing alleged irregularities by Mr Bolliger to Chelsea CID, but it is thought the police investigation is unlikely to proceed.

Lasmo bid extended as controversy grows

Enterprise Oil yesterday extended its hostile bid for rival explorer Lasmo until June 17 amid increasing controversy over the target's allegations that it had breached accounting standards.

Officials from the Takeover Panel are believed to have discussed the accusations with Lasmo as part of their on-going examination of the bid.

Separately, Lasmo is believed to have written to both the Financial Reporting Review Panel, the UK accounts

watchdog, and the US Securities and Exchange Commission, to complain about Enterprise's accounting policies.

It claims that Enterprise contravened SSAP 23, the standard on acquisitions and mergers, in its treatment of the acquisition of the Beryl oil field properties in 1988 and Texas Eastern in 1989.

Enterprise is offering 27 Enterprise A shares and 12 warrants for every 80 of Lasmo's. Any revised offer must be made by June 17.

See accounting column

Life Style postpones float in weak market

By David Wighton

The tumbling stock market claimed another new issue victim yesterday when the flotation of Life Style Care, the nursing home group, was postponed. Albert E Sharp, the company's sponsor, had been marketing the shares to institutions for a couple of weeks and the issue was set to be priced next week.

"The reaction from institutions was very positive but in view of the incredibly volatile market conditions it was decided it was not the right climate to go ahead," the company said.

Several new issues were pulled last week and sponsors are

now looking hard at some companies in their pipelines. "I would be very surprised if all our went ahead on schedule," said one corporate broker.

Life Style Care, which has 14 homes with 564 beds, was planning a \$10m share placing which would have valued it at between \$20m and \$25m.

The family of Mr Ramesh Sachdev, the founder, which owns 85 per cent of the equity, was looking to sell about \$2m worth of shares with the rest of the money going to the company to pay off borrowings.

Life Style Care, which specialises in caring for the elderly mentally infirm, made pre-tax profits of £1.2m on turnover of £5.3m in the year to last June.

Pentland acquires Reusch

By Peggy Hollinger

Pentland yesterday made a small dent in its £185m cash pile with the acquisition for up to £20m of a German sports goods company.

The group is paying DM430m (£12m) for Karl Reusch Hand-schuhfabrik, which markets, licenses and manufactures spe-

cialist sports clothing and equipment. A further DM20m will be paid in 2000 if Reusch meets profits targets between 1997 and 1999.

Reusch is perhaps best known for its goalkeeper gloves. Pentland estimates that 75 per cent of the goalkeepers at the World Cup this month will be wearing Reusch gloves.

DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Trust	0.8	July 27	0.5	-	1.5
Borthwick	0.8	Aug 3	0.7	1.3	1.2
Channel Hedges	0.71	July 14	1	1.2	1.2
Granada	3.391	Oct 3	3.025	6.78	6.78
Kemnay	0.155	Aug 24	0.155	0.155	0.155
Lookers	2.4	Sept 30	2	-	6.5
NIE	0.8	Oct 3	-	11.39	-
Ramco Oil	0.51	July 29	-	-	-
Sketchley	2.21	July 22	2	3.2	3
Sturge	1	Sept 2	1	-	-
Usborne	nil	nil	0.2	-	0.817

Dividends shown pence per share net except where otherwise stated. 10p increased capital. \$USM stock. \$For 15 months. \$For 16 months.

British Gas asks for time on Manila bid

By Robert Corzine

British Gas has asked the Philippines government for more time to consider a possible bid for the state-owned Manila Gas Corporation.

The company, which was due to be sold last Monday, distributes natural gas to industrial, commercial and residential users in Manila.

Renters yesterday reported that the government had deferred the sale in order for the National Development Company, the state owner of Manila Gas, to evaluate new offers from British Gas and two Japanese companies.

But British Gas said it had not yet decided whether to go ahead with a bid.

The government wants to sell its 90 per cent holding in Manila Gas.

The remainder will be sold to small investors.

A government official yesterday said the interest of British Gas and the Japanese companies was "an improvement over the 20 or so potential buyers who expressed interest only in the real estate assets".

Expansion in south-east Asia is known to be a priority for British Gas.

Tapping into a seam of experience

Andrew Taylor on the south Wales coal interests of Powell Duffryn and Wimpey

It is almost impossible to consider the south Wales coal industry operating without Powell Duffryn or George Wimpey. The two companies between them have more than 150 years experience of digging, washing, grading and transporting coal from the region.

It seems perfectly natural, therefore, that Powell Duffryn, now a diversified engineering and distribution company, should seek to join forces with Wimpey, a large construction, housebuilding and open-cast mining group, to bid for British Coal's south Wales operations.

For Powell Duffryn it would maintain a 130-year link with the region. The company, founded in 1864 by a south Wales family, claimed to be the world's largest independent coal mining company before the British coal industry was nationalised in 1947.

Wimpey, which currently operates three of the region's nine open-cast mines, has operated in the area for more than 40 years.

The companies' experience may prove invaluable given the extreme geological complexity of the region: "God put the coal in, then he trod on it. Seams double back on themselves making even open-cast mining difficult," said one coal board official.

The joint venture will include all of the two companies' British coal operations which last year had a combined turnover of about £80m, generating pre-tax profits of about £4m.

Turnover is expected to rise to more than £200m if the joint venture acquires all of British Coal's south Wales interests. The companies have not ruled out taking a stake in other regional coal companies and are also seeking to pre-qualify as a bidder in north-east

England.

Their greatest interest, however, is in south Wales. The companies, in addition to the nine open-cast sites on offer, could also acquire one remaining deep mine, Tower colliery, placed on care and maintenance, and which is being sold separately.

The three sites operated by Wimpey produced about half of the region's open-cast output of more than 2m tonnes during the 12 months to the end of

March, accounting for about a sixth of British coal production. Tower's production added another 900,000 tonnes.

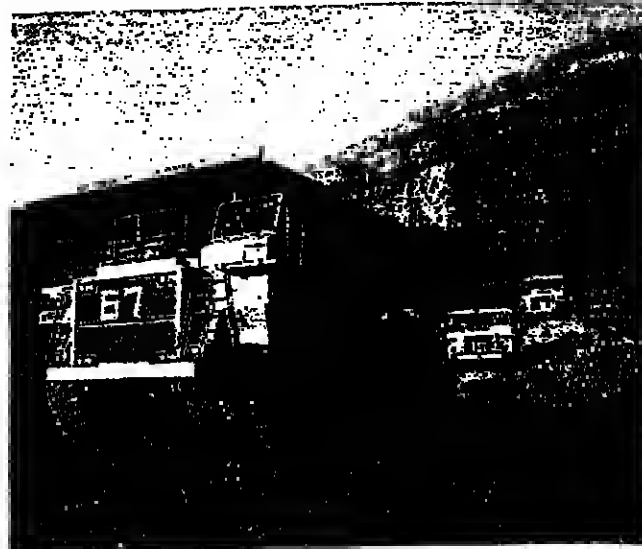
About half the region's coal production is anthracite, a natural smokeless fuel which commands a premium price and is sold mainly for burning in homes and, according to Wimpey, has a strong export potential including to Germany.

Powell Duffryn operates three of the region's five coal distribution sites where it also washes and grades coal ready for sale to customers. Its British coal operations, which have shrunk in recent years, accounted for about 6 per cent of the company's £26.6m pre-tax profit in the year to March 31 1993.

It sells about 500,000 tonnes of coal nationally on its own behalf as well as providing processing and distribution services to British Coal.

Three years ago it sought to sell its British coal interests to concentrate on its other engineering and distribution activities, including transport and storage of bulk liquid chemicals. It subsequently withdrew the coal businesses from the market because the offers it had received were too low.

Wimpey, by comparison, has remained steadfastly committed to its open-cast mining operations started in Britain during the second world war as



Wimpey Mining operates three open-cast sites in south Wales

a means of increasing coal production by using machines rather than valuable manpower. It was one of the first private sector contractors to move into this market.

The company regards mining as an important diversification away from its cyclical construction and housebuilding business. It remains one of the country's biggest open-cast contractors, producing 2.5m tonnes of coal last year.

The two companies employ about 600 people in various

coal operations in south Wales, including 300 at Ffos Las, the region's biggest open-cast site. South Wales sells about 1m tonnes of coal a year to Aberthaw power station. The region's open-cast mines have proven reserves of 7.9m tonnes and fully and partly proven reserves at prospective open-cast sites of 45m tonnes, says British Coal.

Previous articles in this series appeared on May 30 and June 1. Further articles will appear this week and next.

Sketchley bolstered by Supasnaps

By Peggy Hollinger

A move into the photographic film business helped Sketchley, the dry cleaning and photo processing group, increase pre-tax profits by 6 per cent before exceptional to £5.1m in the year to April 1.

Supasnaps, the photo processor acquired for a total cash payment of £6m in 1993, offset a difficult year in the core dry cleaning business.

The new division contributed £1.4m to operating profits of £6.6m. This compared with a total operating return of £5.8m last time, which was depressed at the pre-tax level by a £1.7m exceptional charge.

Sales were also boosted on the back of the acquisition, rising by 37 per cent to £142.9m. Excluding Supasnaps, sales fell by 3 per cent to £101.4m.

Mr John Richardson, deputy chairman, said that he was optimistic about the current year, particularly given the recent increase in dry cleaning volumes.

In four of the first five months of 1994, there had been a rise in sales of about 2 per cent.

An increase in the dividend was intended to pass that confidence on to shareholders, he said.

The pay-out is increased by 10 per cent to 2.2p, for a total up 7 per cent at 3.2p,

payable from earnings per share ahead from 4.9p to 6.7p.

The integration of Supasnaps was going forward as planned, with substantial cost savings yet to be realised. Sketchley had cut £1.2m in costs last year and expected a further £300,000 in savings this year.

The group merged 40 Supasnaps outlets with dry cleaning shops, and planned to combine a further 50 this year.

Textile rental suffered an £800,000 drop in operating profits, due to the accelerated closure of British Coal pits.

Mr Richardson said Wanderer Aircraft Services, purchased six weeks ago for £3m, was expected to contribute more than £1m this year.

Racal expands in Singapore via £9.7m buy

By Paul Taylor

Racal Electronics has paid \$322.4m (£9.7m) cash to acquire an 80 per cent stake in Techno Transer Industries, a Singapore-based group which builds and operates remotely controlled submarines.

The acquisition includes Asiatic Underwater Contractors, a Techno subsidiary which provides remotely operated submersible vehicle services to the offshore industry and to more than half of the drill rig support market in east Asia.

Techno, which has a modern fleet of 11 remotely operated submarines, will become part of the Racal Energy division.

Mr David Elsbury, Racal Electronic's chief executive, said the acquisition "provides us with a cost effective entry in a market which is currently worth £100m a year and is expected to increase."

Techno made pre-tax profits of \$384,000 on turnover of \$37.5m in the year to last June. In the current year pre-tax profits of \$31.9m are expected on turnover of \$39.6m. Net assets are about \$36.5m.

Daily Mail pays £6.8m for local radio portfolio

By Raymond Snoddy

The Daily Mail and General Trust, owner of the Daily Mail, yesterday increased its presence in commercial radio with the purchase of a portfolio of radio investments previously owned by M&L, the broadcasting and financial services group.

The purchase by Harmsworth Media, a subsidiary of Daily Mail and General Trust, was for a total of £6.8m.

M&L had gained the stakes through its purchase of Anglia Television and did not see itself as a player in the radio market.

As a result Harmsworth now holds 18.5 per cent of Children

Radio, 19.2 per cent of East Anglian Radio and 13.3 per cent of Essex Radio.

The company already owned 19 per cent of GWR, the Bristol-based group; 4 per cent of Classic FM; 39 per cent of Radio Trust; a collection of stakes under 10 per cent and 18 per cent of Swansea Sound.

At the moment Harmsworth, as the subsidiary of a national newspaper group, is unable to own stakes of more than 20 per cent in commercial radio stations.

The government is, however, in the middle of a reviewing cross-media ownership rules and some degree of liberalisation is likely.

Spring Ram buys Rest Assured

Stag Furniture Holdings, part of Spring Ram, the loanmaking kitchens and bathrooms group, is acquiring Rest Assured and five properties used by it for 85m from BTR, the industrial conglomerate.

Rest Assured is a branded

bedding, upholstery and furniture maker. Stag has purchased net assets of about £2m in respect of the business and £1.75m for the properties.

Spring Ram said that Rest would break even over the current year, after costs.

US software purchase for Micro Focus

By Alan Cane

Micro Focus Group, the Berkshire-based computing services company which has seen its share price slide sharply over the past year, is to pay up to \$13.5m (£8.5m) to acquire Burt Software Laboratories, a North Carolina software house.

The deal calls for the exchange of between 400,000 and 800,000 of Micro Focus ADRs and possibly some cash. It will be treated as a pooling of interests under US accounting rules.

Micro Focus, a developer of software for personal computers which makes large scale software error to write, has seen the value of its shares fall from £30 to less than £10 on fears that growth was slowing. Excellent first quarter results partly reversed the trend. Yesterday the shares stood at £10.75p.

Burt, established two years ago, now has 12 employees and negligible assets and profits. It makes a software tool for the analysis of existing systems written in Cobol.

Revamped Borthwicks returns to the black

By Caroline Southey

Borthwicks mounted a sharp recovery in the first full year following disposal of its loss-making meat interests, with pre-tax profits of £1.7m for the 12 months to April 2, against losses of £1.85m.

The natural flavours company achieved sales of £29.2m, up 11.5 per cent on last year's £25.6m from continuing operations.

The outcome took in losses of £117,000 on disposals; the previous year's deficit was struck after £3.08m of losses on disposals and reorganisation costs.

"This year saw Borthwicks for the first time focused on its future as an international flavours business and we are pleased with the turnaround to profit. In operating terms this side of our business has always

made money and we will continue to build on its reputation," Mr Peter Brackenridge, chief executive, said yesterday.

Operating profits from continuing operations rose 12 per cent from £2.03m to £2.27m, but rose only 3.5 per cent if losses by F&C Hong Kong, a flavours and fragrance maker acquired in July, were taken into account.

Sales in the UK market, which account for two thirds of turnover, remained flat although exports showed an increase of 14 per cent.

Trading remained strong in the US where sales of Borthwicks Flavours USA rose by 16 per cent in dollar terms and 28 per cent in sterling terms.

Earnings per share were 2.5p compared with losses of 3.8p. A recommended final dividend of 0.8p lifts the total by 8 per cent to 1.3p.

Buoyant used car sales behind rise at Lookers

Lookers, one of the top 10 UK motor dealer groups, more than doubled interim pre-tax profits thanks largely to buoyant used car sales, writes Caroline Southey.

Pre-tax rose from £1.54m to £3.09m in the six months to end-March on turnover ahead by 14.2 per cent to £187m (£164m).

The group raised its interim dividend by 50 per cent from 2p to 3p. The pay-out is covered more than three times by earnings of 7.3p (2.6p) per share.

Mr Ken Martindale, chairman, said that profits had increased chiefly as a result of a 19 per cent increase in used car sales coupled with improved margins.

Sales of new cars to the fleet sector fell slightly, he said, but

sales to retail customers had risen by 13.5 per cent.

"We felt that margins at the top end of the fleet market were not worth getting into and we did not get into deep discounting. But with constant hard work I am confident we will be able to hold our improved margins," Mr Martindale said.

Increased personal taxation from April had interrupted the rising sales trend, but Mr Martindale predicted a steady increase through to the end of the year.

He said the company would be looking at expansion opportunities next year in the light of a further reduction in its gearing, which had fallen to 36 per cent at the end of March from 53 per cent a year ago.

NEWS DIGEST

Low prices hold back Ramco Oil

Pre-tax profits of Ramco Oil Services, the USM-quoted energy services group, slipped from £349,000 to £223,000 in the year to end-December. Turnover fell from £5.43m to £4.78m. Earnings emerged at 0.8p (1.88p) and the dividend for the year is halved to 0.5p.

The directors said the fall in turnover reflected lower levels of activity related to declining oil prices.

In December last year Ramco commissioned its one-stop tubular service centre at Badentony, near Aberdeen, and completed the sale of its former site at Altness.

A placing of 800,000 new shares at 121p took place in May 1993, and a further 400,000 were placed at 125p in August.

The funds raised helped enable the completion of the first phase of the Badentony facility.

Low prices hold back Ramco Oil

The directors said an increase of £1.6m in stockbroking income to £7.95m was more than offset by a reduction of £2.5m in insurance agency income to £4.85m, which resulted from lower capacity under management and reduced levels of run-off management fees.

The operating loss of insurance agencies was £1.84m (£1.99m) while stockbroking profit was £1.7m (£851,000).

Net profit emerged at £243,000 (£196,000) and earnings per share were 0.5p (0.4p). The interim dividend is held at 1p.

Fenner plans to buy out S African arm

Fenner, the specialist engineering group, proposes to acquire the balance of the shares in Fenner Group SA - its South African subsidiary.

FGSA, which is quoted on the Johannesburg Stock Exchange, makes and distributes a range of power transmission equipment, conveyor belting and polymer products together with industrial pumps and specialised foundry castings.

The offer price represents the net asset value of the shares as at February 28 this year.

BAT concludes South Africa deal

BAT's South African subsidiary has concluded the sale of its Willards Foods division to National Brands, part of Anglovaal Industries, for about £55m cash.

BAT said the disposal of Willards, which makes snack foods, allowed it to concentrate on tobacco and financial services in South Africa.

Winchester Multimedia expands

Winchester Multimedia, traded under Rule 535, announced pre-tax losses of £354,630 for the year ended March 31 and has entered the music business by acquiring Meridian Music.

The terms of the deal, completed earlier this week, are 150,000 new Winchester shares, with further shares due if pre-tax profits reach £100,000 for the year to March 31 1995.

The maximum number of total shares payable is 400,000, equalling £200,000 on Tuesday's closing price.

As stated at the time of Winchester's £1.5m share issue in January, there is no dividend payment. The proceeds are

being used to develop the business, which is engaged in film production, television, consumer products and publishing.

Turnover in the 12 months came to £43,277. There was an operating loss of £354,630.

Mexico link helps Ionica raise £30m

Ionica, the private Cambridge-based telecommunications company pioneering radio access technology, has raised £30m this year.

A strategic partnership with Pulsar, the Mexican conglomerate, accounts for most of the investment, which takes Ionica's equity base to £45m.

Ionica aims to offer a telecommunications service for "fixed" phones in competition with BT, using radio links for its local network instead of underground cable. It is piloting its technology in East Anglia and plans to launch its service next year.

Pulsar plans to use the technology to offer a similar service in Mexico.

Some 510 staff leave core business, further reductions planned

Cost cuts help NIE to £75m

By Michael Smith

Job cuts and above average sales growth helped Northern Ireland Electricity, which was privatised last June, to increase annual pre-tax profits by 28 per cent, from £58.7m to £75.2m.

The comparative figures are on a pro forma basis. NIE cut 510 staff from its core business in the 12 months to March 31, leaving 2,796 in place.

It plans to lose at least another 200 by March 1996.

The job cuts were one of the factors behind a 5 per cent reduction in controllable costs during the year.

The company also benefited from a 2.4 per cent growth in unit sales for the year, compared with an average of 1.1 per cent achieved by power distributors in Great Britain.

Operating profit increased to £81.5m (£72.3m) on turnover of £482m (£458m). The pre-tax line, however, was depressed by an £8.2m exceptional item for reorganisation and restructuring costs mainly incurred in reducing staff.

Earnings per share were ahead 32 per cent at 36.7p.



Sir Desmond Lorimer (left), and Patrick Haren, chief executive

(27.8p). A proposed final dividend of 8p gives a total of 11.39p.

Sir Desmond Lorimer, outgoing chairman, said the company had told the industry regulator that it favoured the introduction of competition into the market.

The regulator has already tabled proposals for the creation of a pool trading system.

Sir Desmond said NIE had

industry in England and Wales was privatised four years ago and it has happened again with NIE. Consumers and taxpayers will no doubt complain, but shareholders need not worry too much. They can rejoice that, unlike the England and Wales power companies, NIE will escape major regulatory reform this summer. They should also congratulate the management whose control on job numbers and capital expenditure should ensure that gearing will reach nothing like the 60 per cent levels once predicted for the late 1990s; even 40 per cent may seem excessive now. With dividend cover last year at 3.2 times, there is plenty of scope to increase the distribution to shareholders. This year could see about 13p, putting the shares on a prospective yield on a fully paid basis of 4.6 per cent, nearly a percentage point lower than the England and Wales power companies. Nonetheless, the shares have been strongly outperforming recently. In the short term their progress will be arrested as the June 23 deadline approaches for paying the second instalment for the shares.

COMMENT

The pattern is familiar enough. A recently privatised company finds the scope for cutting costs is far greater than it had imagined when it was negotiating with the government on setting the price for the sale. It happened when the power

planned to introduce new management if it was successful. The Towles board yesterday said it would provide detailed advice in due course. Meanwhile, shareholders were advised to take no action.

Alpha Airports Australian venture

Alpha Airports Group has formed a joint venture with Connat Flight Services, Australia's largest independent flight caterer, through the acquisition of 49 per cent of the company for some A\$7.5m (£3.7m). Connat serves Quantas and Ansett, Australia's two international airlines. In 1992-93 it made £1.5m pre-tax.

The remaining 51 per cent of the company will continue to be held by the founders.

Northumbrian Water DM15m buy

Northumbrian Water Group

has, through its Montec International subsidiary, paid DM15.3m (£6.2m) to acquire the waste water sampling and distribution activities of Edmund Buhler.

The company, based south of Stuttgart in Baden-Württemberg, claims to be the European market leader in the manufacture and distribution of waste water sampling equipment.

Cedardata ahead of forecast with £2.71m

In its first set of results since flotation in March, Cedardata, the Surrey-based supplier of financial accounting and commercial computer software, lifted pre-tax profits by 62 per cent from £1.78m to £2.71m for the year ended March 31 - just ahead of forecast.

Turnover expanded 16 per cent to £6.12m (£5.26m). Earnings per share were 6.3p (4.4p). At its share placing - priced at 105p valuing the company at

£32.2m - the directors forecast pre-tax profits of £2.65m.

Mr Leon Fattal, managing director, said that sales prospects were significantly ahead.

Acquisitions help Channel to £1.7m

Channel Holdings, a maker of security products and anti-theft devices for cars, achieved pre-tax profits of £1.7m for the year to March 31 against £208,000 for the previous 15 months.

The result includes a full 12-month contribution from Carflow Products and a maiden contribution from Q&E Security Components, consolidated from April 19 1993.

Turnover amounted to £15m (£1.82m). Acquisitions generated sales of £12.1m and contributed £1.1m to operating profits of £1.69m.

Earnings were 3.5p (2.4p) and a final dividend of 0.7p is proposed for a 1.2p total (1p for 15 months).

Expanding Aberdeen Trust ahead to £3.5m

By Graham Deller

An expanding range of investment trusts and substantially improved margins lay behind an impressive first-half performance from Aberdeen Trust.

Turnover at the fund management and accountancy services group improved by 25 per cent during the six months to March 31 - from £7.15m to £8.96m - but pre-tax profits advanced to £3.51m, a figure that compared with £3.01m last time and exceeded the outcome of £3.15m achieved in the group's last full year.

The advance was attributed to increased income growth and reduced fixed overheads resulting from the rationalisation programme implemented last year.

Directors said that a further £74m had been committed by investors in 1994 following the launch of Abtrust High Income Trust and capital issues from Abtrust New Dawn Investment Trust and Abtrust Scotland Investment. Total funds under management at the period-end amounted to £2.38m, a rise of 20 per cent.

The group has used the sizeable gain in operating cash flow to reduce borrowings; gearing was 32 per cent at end-March, down from 45 per cent at the September year-end and 67 per cent at the same stage of 1993.

The interim dividend rises 20 per cent to 0.6p, payable from earnings of 2.92p (0.81p).

Warner-Wellcome starts its European operations

By Daniel Green

The European operations of Warner-Wellcome, the new consumer health joint venture between Wellcome of the UK and Warner-Lambert of the US, came into being yesterday, two weeks after being given the go-ahead from the European Commission.

"We received a 'comfort letter' from the Commission indicating that there were no objections," said Mr James Cochran, European operations director of Wellcome.

The Commission said in March that it was reviewing the deal.

A letter of intent was signed by the two companies in July 1993 and the North American arm of the operation came into existence in January 1994.

Warner-Wellcome is 50-50 owned by the two partners in Europe and 70 per cent owned by Warner-Lambert in the US.

Mr John Walsh, president of Warner-Lambert's consumer products division, said the venture should double its worldwide sales of over-the-counter medicines from a current level of \$1.6bn (£1.1bn) in the next five years.

The European operation will sell a range of products including Listerine mouthwash, Actifed cold treatment and Zovirax, Wellcome's anti-viral drug for use on cold sores.

Mr Walsh said that the market for OTC products would grow from \$30m to \$40m a year by 2000. The joint venture's sales would double over five years thanks to "switch products" - prescription drugs

such as Zovirax that receive approval for OTC sales.

The venture has a licence from Glaxo to sell an OTC version of the world's biggest selling prescription drug - Zantac, the ulcer treatment.

Zovirax is yet to receive OTC approval in the US. The terms of the contract between Wellcome and Warner-Lambert provide for a review of the joint venture if the drug fails to secure approval.

The company will be seeking further licences to sell OTC versions of prescription drugs, said Mr Cochran, although none were close to being secured.

The OTC market would grow quickly because individuals wanted to be able to treat themselves without having to consult a doctor, he added.

Chesterton sees 34% rise

By Simon Davies

Chesterton International, the property consultancy, is predicting a 34 per cent increase to £5.1m in profits before tax for the year to end-June, helped by a strong increase in property activity in southern England.

Chesterton issued its pathfinder prospectus yesterday for a flotation which will value the group at more than £50m and offer about 40 per cent of its enlarged share capital through a placing.

About 25 per cent of the offer will comprise new shares, raising £5m for the group to lower

debt and fund future expansion.

Two thirds of the old shares being placed will come from former employees and "near-term retirees". The remainder, amounting to approximately £5m of shares, will be sold by current employees, who will retain more than 50 per cent of the company's shares.

At the current minimum issue price of 100p, the shares would be issued on a p/e of about 14.

Chesterton, like most consultancy businesses, has few assets, and post flotation, shareholders funds will amount to some £10m.

Employees are its key asset, and a costly one to maintain. Staff costs amounted to £25.8m in the year to June 1993, up from £21.7m.

The company has already seen significant improvement in profit margins from its core consultancy businesses.

Advisory fees accounted for 72 per cent of last year's revenue, and Chesterton intends to build up further its consultancy business to maintain a more consistent earnings base in a business renowned for volatility.

The flotation is sponsored by Robert Fleming, pricing will be announced on June 15.

Avesco sells part of AVS

Avesco, the broadcast equipment and services group, is selling the television standards converter part of the television products business carried on by AVS Broadcast to Elmview Properties for about £2.3m.

The consideration is made up of £1.5m cash with the balance by the allotment of 397,482 ordinary £1 Elmview shares.

Avesco has also conditionally agreed to buy a further

496,856 shares from other Elmview shareholders for £1m cash and, in connection with the merger of Elmview with Routine Data, to sell its shareholding in Elmview to Routine.

As a result, Avesco will receive £500,000 cash in addition to its Routine shares, representing an 18 per cent stake in the company.

The above transactions are conditional on the acquisition by Elmview of another television products company.

British Midland growth

British Midland Airways, the UK's second largest scheduled airline, yesterday further extended its network of international partnerships by forging a ticket code-sharing agreement with Austrian Airlines, writes Paul Bebb.

Under the deal, the Austrian flag carrier will offer seats on British Midland services to Belfast, Dublin, Glasgow and Edinburgh, Teesside and Leeds Bradford via London's Heathrow airport.

In turn, British Midland passengers will be able to make twice daily connections into Austrian's hub in Vienna.

Code sharing allows two airlines to use their respective ticket codes on each other's flights.

The British Midland-Austrian agreement will start on July 1 and travellers will be issued with connecting flight boarding passes and advance seat selection at their point of departure.

Results for the year and final dividend

- Total net earnings up by 23% to R2 984 million (1282 cents per share) •
- Dividends increased by 14% to 395 cents - a R919 million distribution •
- Net asset value per share rises 54% to 23 622 cents •
- Increased contribution from gold, diamond and industrial interests •
- Good prospects for sustained growth both locally and in export markets •

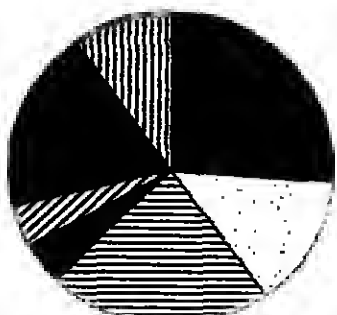
ABRIDGED CONSOLIDATED INCOME STATEMENT

(R million)	Year ended 31.3.94	Year ended 31.3.93	% Change
Net income	1 693	1 464	+15
- Investments	580	521	+4
- Trading	258	9	-
- Surplus on realisation of investments	35	53	-38
- Other	2 477	2 877	-15
Net income before taxation	2 477	2 877	-15
Taxation	239	242	-2
Net income after taxation	2 238	1 635	+37
Attributable to outside shareholders	580	431	+35
Attributable earnings	1 658	1 204	+38
Retained earnings of associated companies	1 392	900	+55
Equity accounted earnings	2 950	2 304	+28
Abnormal item	-	114	-
Total net earnings	2 950	2 418	+22
Earnings per share - cents			
- attributable earnings	722	605	+19
- total net earnings	1 282	1 042	+23
Dividends per share - cents			
- interim	395	345	+14
- final	395	255	+55
Dividend cover			
- attributable earnings	1.85	1.75	+6
- total net earnings	3.25	3.02	+8

ABRIDGED CONSOLIDATED CASH FLOW STATEMENT

(R million)	At 31.3.94	At 31.3.93
Operating activities		
Operations	2 335	2 389
Taxation paid	(135)	(94)
Available from operations	2 200	2 295
Dividends paid	(1 194)	(1 194)
Net resources from operations	1 006	1 101
Investing and financing	(619)	(1 693)
Net funds (available) generated	387	(592)
Increase in loans from associated companies and others	741	300
Net cash resources at 31 March 1993	1 128	1 993
Net cash resources at 31 March 1994	2 699	1 701

SEGMENTAL ANALYSIS OF TOTAL NET EARNINGS*



- Mining finance: R754 million 25.3% (1993: R617 million 25.5%)
- Gold and uranium: R400 million 13.4% (1993: R277 million 11.5%)
- Diamonds: R642 million 21.5% (1993: R463 million 19.2%)
- Coal: R134 million 4.3% (1993: R240 million 9.9%)
- Platinum, base metals and other mining: R127 million 4.3% (1993: R155 million 6.4%)
- Industry and commerce: R529 million 17.7% (1993: R381 million 15.8%)
- Financial services and property: R288 million 9.6% (1993: R238 million 9.8%)
- Investment surpluses and other net income: R110 million 3.7% (1993: R47 million 1.9%)

* The total net earnings have been analysed on a segmental basis to show the relative contribution of the various sectors in which the Corporation is invested. This analysis is based on the principal business activity of each investment and so does not indicate the diversity of the underlying investments, details of which will be given in the annual report.

ABRIDGED CONSOLIDATED BALANCE SHEET

(R million)	At 31.3.94	At 31.3.93
Shareholders' equity	29 349	18 176
Outside shareholders' interest	2 369	2 233
In subsidiary companies	837	529
Deferred tax benefit	2 398	1 832
Loans from associated companies and others	2 132	1 777
Other liabilities	26 185	25 007
Represented by:		
Investments	28 114	18 423
Fixed assets	3 749	3 302
Inventories and accounts receivable	1 473	1 581
Deposits and cash	2 858	1 701
Total	28 185	25 007
Number of shares in issue - millions	233	232
Net asset value per share - cents	23 622	15 300
For other providing for final dividend		

COMMENT

The Corporation reports a significant improvement in earnings demonstrating again that geographic and product diversity underpins its inherent financial strength and resilience. Business and investor confidence in South Africa has been enhanced by the momentous political developments, combined with the long awaited domestic economic upswing and an expected gradual acceleration in global growth. These factors have helped re-rate the South African stock market and accordingly the Corporation's investments appreciated substantially. This permitted the realisation of certain investments, materially boosting current earnings.

The Corporation supports the endeavours of the International Accounting Standards Committee towards achieving a greater comparability of accounting practices. Certain modifications in the Corporation's accounting policies have been introduced to incorporate the requirements of international accounting standards, adapted to suit the circumstances of a South African mining finance house. The financial statements reflect these changes and comparative figures have been appropriately restated.

Against this background, the Corporation's total net earnings amounted to R2 984 million (1282 cents per share), an increase of 23% from last year's

related earnings of R2 418 million (1 042 cents per share) which included an abnormal deferred tax credit of R114 million. Attributable earnings, which exclude retained earnings of associated and abnormal items, increased by 28% to R1 658 million (722 cents per share). The effect of the change in accounting policies referred to above was to increase current total net earnings by 3% and in decrease the prior year's earnings per share by 2%. These adjustments were largely the result of adopting a more restrictive definition of extraordinary items. Dividends were increased by 14% to 395 cents per share and were covered 1.83 times by attributable earnings and 3.25 times by total net earnings.

The higher dividend income from gold, diamond and industrial interests, partly offset by lower dividends from platinum interests, contributed to a 15% increase in income from investments in R1 683 million. The re-organisation of the Corporation's non-South African investments resulted in a smaller increase in contributions from the financial services sector and, owing to a lag in the timing of dividend receipts, from the mining finance sector.

Trading income from coal and to a lesser extent from property interests was adversely affected by difficult conditions in each of these sectors, and decreased by 4% from R521 million to R500 million. The surplus on realisation of investments increased from R9 million to R259 million largely from the sale of certain non-strategic gold holdings. The proceeds are being re-invested mainly in new mining ventures and in undervalued gold mines with long lives.

Other net income was R48 million lower at R35 million as a result of reduced net fee and interest income, compensated to some extent by lower prospecting costs. The taxation charge of R236 million is R6 million lower than last year. The outside shareholders' interests in earnings of subsidiary companies rose from R431 million to R560 million reflecting their share in the increase in Anglo's earnings and in Asantini's income from its diamond interests.

Retained earnings of associates, which are transferred in non-distributable reserves, increased by 45% from R900 million to R1 303 million. This reflects the improved earnings mainly of the group's diamond and industrial associates, including those in the pulp and paper industry.

The Corporation's net asset value at 31 March 1994, adjusting the carrying value of investments for their market or directors' valuation and after providing for the final dividend, was 55% up at R24 982 million or R236.22 per share.

The successful general election, the installation of a government of national unity under President Mandela, marked by a commitment to reconciliation and prudent economic policies, augur well for the future.

NOTICE OF DIVIDEND

Dividend No. 116 of 300 cents per share has been declared payable on Tuesday 2 August 1994 to shareholders registered at the close of business on Friday 17 June 1994. The register of members will be closed from Saturday 18 June 1994 to Saturday 25 June 1994. The full conditions relating to this dividend may be inspected at the Johannesburg and London offices of the Corporation and its transfer secretaries.

The annual report will be posted to shareholders on or about 27 June 1994 and the Chairman's statement on or about 18 July 1994

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19 Charterhouse Street
London EC1N 6QP

1 June 1994

Selling spree hits copper and coffee

By Our Commodities Staff

Commodities and precious metals prices tumbled yesterday in Chicago, London and New York as investment funds and speculators sold heavily.

However, maize and soybean prices, which rose so strongly in Chicago on Tuesday, held on to most of those gains yesterday after early setbacks.

Coffee and copper prices, which have been the main beneficiaries of the recent buying spree in London, went into reverse. Copper for delivery in three months on the London Metal Exchange dropped by \$39.50 a tonne to close at \$2,227.50. Traders suggested that a slowing in copper's rally, and its failure to move close to recent 16-month highs after a short, downward movement last week, possibly unsettled some speculators.

Coffee prices slid by \$56 a tonne in London in a round of profit-taking with the September futures contract at the London Commodity Exchange down at \$2,035 a tonne. The

market was led down by an early slump in New York where traders were concerned about Friday's expiry of options contracts.

But London trading was thin and volatile and in this case speculators and hedge funds were absent from the market. Ms Judy Ganes, soft commodities analyst at Merrill Lynch in New York, said that a combination of Tuesday's auction of stocks in Brazil which had failed to sell as much as expected, and a lower than expected drop in US stocks, had unsettled the market.

US maize and soybean futures dipped at yesterday's opening at the Chicago Board of Trade as speculators took profits after a weather-induced rally Tuesday. However, evidence that unseasonably warm, dry weather was persisting in the upper Midwest crop areas bolstered prices after the opening.

At midday, maize futures were little changed from Tuesday's strong closes, and soybean futures were only 4 to 5 cents per bushel lower.

Platinum market moves into balance

By Kenneth Gooding, Mining Correspondent

The platinum market, having suffered a supply surplus for some years, is now moving back into balance.

Prices should show strong gains during the next 18 months and consolidated in a range between \$450 and \$500 a troy ounce, according to analyst Ms Rhona O'Connell in a special report for T Hoare and Co.

Platinum closed last night in London at \$401.90 an ounce. Ms O'Connell points out that there is an estimated 700,000 ounces of annual platinum production capacity in South Africa alone that could be brought into operation if prices were right. But she suggests prices will not go high enough to trigger all of this.

Nevertheless, she would "not be at all surprised to see Impala reinstate shelved expansion plans and Rustenburg implement its Lelewa expansion or, more importantly, expand output at the low-cost PP Rust mine."

Mr O'Connell suggests, however, that even higher prices will not save Gold Fields of South Africa's new Northern mine which is likely to be closed because of technical problems.

If Northern does remain open there would be a platinum supply surplus of 136,000 ounces this year, she forecasts, and one of 54,000 ounces in 1995. Ms O'Connell points out that investment activity over the past six years has accounted for 328,000 ounces annually and the lowest level in 1989 was 160,000 ounces.

"In theory, therefore, the market should start to see above-ground, industrial stocks drawn down during this year and, all other things being equal, for that drawdown to be relentless."

Kenya's pyrethrum dominance challenged

Michael Griffin on prospects for the major producer of the only true organic pesticide

A record Kenyan crop of pyrethrum, a vital ingredient in many insect-control formulations, will more than compensate for losses arising from the cactylus in Rwanda, formerly the world's third largest producer of this natural pesticide. But the further concentration of supplies in a drought-prone region with its own record of recent ethnic violence is cause for concern among the producers' few big buyers.

Pyrethrum first surfaced commercially in Dalmatia and Japan before being transplanted in the 1930s to the Kenyan Highlands, where it is grown as a cash crop by over 40,000 small-scale farmers. Since then, Kenya has regularly produced 60-70 per cent of annual world demand of 20-25,000 tonnes, processing it for export into powdered or liquid concentrate at a refinery in Nakuru on the edge of the Rift Valley.

Despite a nation-wide failure of the rains earlier this year, the state-controlled Pyrethrum Board of Kenya (PBK) has reported a harvest of 18,000 tonnes of dried flowers, 45 per cent up on the previous season's 12,400 tonnes. "To have a

stockpile puts us in a position of being able to promote pyrethrum and its level of usage," says Mr John Wainaina, PBK's chief executive.

With prices remaining firm at \$80 per kilogram of extract, the new crop gives Kenya a commanding 90 per cent share of world production.

The existence of this daisy-like flower lends support to the belief that the divine plan, with its generous provisions for cockroaches, mosquitoes, house flies and fleas, may have been subject to later, more thoughtful revision. For processed pyrethrum yields the world's only truly organic pesticide, a quick-acting, biodegradable powder that is non-carcinogenic, non-toxic to humans and animals and has no history of insect resistance.

Ninety per cent of all pyrethrum is used in the control of these four main pests, usually through aerosol formulations. But pyrethrins, the active ingredient, are deployed wherever human or animal health are more important considerations than kill ratio; the protection of stored grain, beverages and fruits; food preparation and canning; pest control in kitchens, gardens,

restaurants and airplanes; and in a variety of veterinary applications. colBut where pyrethrum falls fatally short, in scientific and commercial terms, is that it has no staying power, breaking down rapidly under ultra-violet light.

With the growth of a mass market for household insecticides in the 1950s there came a demand for the development of cheaper, long-lasting alternatives to pyrethrum. There are now over 40 synthetically-produced substitutes.

With Kenyan independence a second reason for diversification emerged: the fear that political instability or poor management would choke off deliveries from the world's largest producer.

"If it were not for doubts over the regularity of supplies, I think the invasion by synthetic pyrethroids would not have been as intense as it has become," says Mr Wainaina.

As it is, the PBK will be lucky to lift exports beyond last year's \$10m, in spite of the record crop. Pyrethrins touch the lives of everyone but 80 per cent of the trade is controlled by a handful of large insecticide manufacturers - among them Johnson and Johnson,

Roussel, Bayer, Sarah Lee and Sumitomo. As the producer of a raw material which can be utilised or omitted as they see fit, the PBK has an almost apologetic relationship with the buyers, aware that they need its unique product but conscious too that they will cut and run as soon as proprietary substitutes can be found.

Until recently, shoppers for pyrethrum had little alternative but to troop up to Nakuru, the Kenyan market town at the heart of the industry. The cool, surrounding highlands allow flowers to be picked for nine months of the year: elsewhere they yield just a single bloom. The PBK headquarters has a down-at-heel, faintly academic atmosphere not inappropriate to a colonial institution that has mysteriously survived into the present day. With a 90 per cent recovery rate, no fresh investment is envisaged in the existing processing technology.

Two factors have now come to disturb this complacency. For the past 18 months, the Rift Valley has been the scene of a low-intensity range war in which Kalenjin and Masai people, loyal to President Daniel

arap Moi, have driven Kikuyu supporters of the opposition from their farms and businesses. Through the violence clearly did not effect this year's crop, it has had an impact upon growers in the Mau Escarpment.

A greater challenge to Kenyan pre-eminence is emerging on the other side of the world in Tasmania. In collaboration with large-scale farmers, Commonwealth Industrial Gases (CIO), a British Oxygen Group subsidiary, is conducting field trials on the viability of intensively-produced pyrethrum, using high-quality clones on irrigated land. The acreage is still small and the climate not as suitable as Nakuru's, but Tasmania is already in a position "to influence the supply," according to the Mr Wainaina.

If trials show that, despite the shorter season, mechanised farming can be profitable, nothing would then prevent pesticide manufacturers from bringing pyrethrum-growing back to Europe where it started more than 150 years ago. EC regulations on "set-aside" land already permit the cultivation of crops with an industrial, non-food end-use.

Sweden tries to halt Norway's oil drilling

By Hugh Carnegie in Stockholm

Sweden yesterday called on Norway not to proceed with plans to drill oil exploration wells in the Norwegian sector of the Skagerrak, saying the project could damage its fisheries and tourism industries and threaten its rugged west coast.

The plan to allow four exploration wells in the Skagerrak is part of a wider project to increase offshore exploration acreage by 16 per cent in a bid to offset a steep decline in crude oil production expected after 1996 by Norway.

The proposals are due to be

voted on by the Norwegian Storting by June 15. But opposition is also mounting within the parliament to allowing any drilling in the Skagerrak, about 50km off the southern Norwegian coast.

Environmentalists and fishermen have rallied support for their objections, despite the government's intention to restrict drilling to one well at a time and to bar drilling during the summer prawn harvest.

Opposition has been voiced from within the ranks of the minority ruling Labour party as well as by the chief opposition parties and the state pollution control authority.

Producers 'lose out' on futures

By Deborah Hargreaves

Commodity producers in third world countries are losing out from the roller-coaster ride on the world's futures markets and not seeing much benefit from higher prices, according to Mr Carl Greenidge, deputy secretary general of the African, Caribbean and Pacific group of countries.

Mr Greenidge is in London to lobby candidates in the forthcoming European parliamentary elections. "We hope to press European countries to look more sympathetically at commodity protocols with economic clauses," he will tell a conference organ-

ised to the World Development Movement today.

"The markets that will allow the sort of chaos we've seen over the last five-to-six years are clearly not the sort of markets that will facilitate investment in industry or stable incomes for producers," he stresses.

The WDM, a third-world campaign organisation, has calculated that from a chocolate bar, a cocoa farmer receives only 5p, whilst the UK Treasury gets up double that amount in taxes.

In addition, the movement says that EU tariffs imposed on third world producers discourage them from

manufacturing finished products.

The Lomé Convention, a preferential trading agreement between the European Union and ACP countries is being reviewed this year and Mr Greenidge says there are some clauses that need tightening up.

He highlights the problems many African countries experience in repaying debts and calls for better returns for these countries from the basic commodities they sell.

"The unpredictability of the markets makes it impossible for producers to plan ahead in a sensible fashion," Mr Greenidge emphasises.

Gaviria accepts as 'fair' EU banana import plan

By Canute James in Kingston

Mr Cesar Gaviria, the president of Colombia, has said that the European Union's banana import regime is fair to both Latin American and Caribbean exporters, and that this was the reason for his government's acceptance of it despite continuing criticism from some Latin American producers.

"Colombia considered the Lomé Convention convenient and good, and understood why Caribbean countries had special access to the European market," Mr Gaviria told a

radio station in Barbados.

"We wanted an agreement with the European Union in relation to bananas. That's why we accepted the EU proposal," Latin American producers had attacked the EU's import regime which allows duty free access for fruit from traditional suppliers in the Caribbean and other countries in the African, Caribbean and Pacific (ACP) group, while imposing duties on the quota granted Latin exporters.

The EU has proposed increasing Latin American imports from 2m tonnes per year to 2.1m tonnes this year, and to 2.2m tonnes next year.

COMMODITIES PRICES

BASE METALS

(Prices from Metal Exchange)

■ ALUMINIUM 99.7 PURITY (\$ per tonne)

Close 1319.20 1348.8

Previous 1317.5-8.5 1367.8

High/Low 1317.0/1340

AM Official 1335.5-6.0 1350.5-6.0

Kerb close 1343.4

Open int. 254,978

Total daily turnover 55,478

■ ALUMINIUM ALLOY (\$ per tonne)

Close 1335.45 1335.40

Previous 1330.40 1350.40

High/Low 1340/1335 1363/1326

AM Official 1338.42 1350.5

Kerb close 1335.40

Open int. 3,411

Total daily turnover 683

■ LEAD (\$ per tonne)

Close 500.1 517.8

Previous 505.6 523.4

High/Low 502.2 515.0

AM Official 502.2 515.0

Kerb close 516.7

Open int. 30,599

Total daily turnover 6,569

■ NICKEL (\$ per tonne)

Close 6110.20 6206.10

Previous 6200.40 6370/6170

High/Low 6250.3 6345.50

AM Official 6190.200

Kerb close 58.157

Total daily turnover 13,318

■ TIN (\$ per tonne)

Close 5505.15 5585.90

Previous 5520.5 5600.5

High/Low 5530.50 5600.10

AM Official 5530.50 5590.10

Kerb close 5590.40

Open int. 16,530

Total daily turnover 5,402

■ ZINC, special high grade (\$ per tonne)

Close 354.5 380.1

Previous 357.8 384.3

High/Low 357.8 384.3

AM Official 357.8 384.3

Kerb close 387.80

Open int. 105,299

Total daily turnover 55,931

■ COPPER, grade A (\$ per tonne)

Close 2213.4 2227.8

Previous 2256.8 2266.8

High/Low 2252 2265/2211

AM Official 2252.3 2262.3

Kerb close 2215.6

Open int. 213,698

Total daily turnover 55,931

■ LIME, CLOSING 2/8 RATE: 1.5149

Spot 1517.5 1519.0 1519.0 1519.0 1519.0

■ HIGH GRADE COPPER (COMEX)

Jan 101.00 -2.95 102.25 101.00 1.54 361

Jul 101.00 -2.75 103.55 99.80 38.22 33

Aug 100.00 -2.50 102.40 100.30 381 32

Sep 100.00 -2.30 102.00 99.90 81.81 31

Oct 100.45 -2.20 - - - 238

Nov 100.25 -2.00 - - - 232

Total 62,899 988

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz) 1.5 gms 8 equiv.

Close 387.50-387.50

Opening 387.25 387.25

Afternoon fix 388.30 384.500

Day's High 387.80-388.20

Day's Low 385.20-386.00

Previous close 387.80-388.00

Local Bid Mean Gold Lending Rates (Vs US\$)

1 month -4.00 6 months -4.45

2 months -4.10 12 months -4.95

3 months -4.20

5 month fix 4.20

Spot 365.90 584.25

3 months 580.00

6 months 584.25

1 year 584.25

Gold Coins 5 price 5 equiv.

1000-200 280-280

Magpie Lead 51.94 60-63

Precious Metals continued

■ GOLD COMEX (100 Troy oz; \$/troy oz)

Close 363.5 -3.6 364.1 361.5 1.64 5,348

Previous 363.5 -3.6 364.1 361.5 1.64 5,348

High/Low 363.5 -3.6 364.1 361.5 1.64 5,348

AM Official 363.5 -3.6 364.1 361.5 1.64 5,348

Kerb close 363.5 -3.6 364.1 361.5 1.64 5,348

Open int. 148,143 21,128

Total 148,143 21,128

■ PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Close 401.4 -3.0 405.0 398.5 15.10 1,248

Previous 401.4 -3.0 405.0 398.5 15.10 1,248

High/Low 401.4 -3.0 405.0 398.5 15.10 1,248

AM Official 401.4 -3.0 405.0 398.5 15.10 1,248

Kerb close 401.4 -3.0 405.0 398.5 15.10 1,248

Open int. 22,157 1,863

Total 22,157 1,863

■ PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Close 134.80 -1.55 137.50 133.50 2.96 168

Previous 134.80 -1.55 137.50 133.50 2.96 168

High/Low 134.80 -1.55 137.50 133.50 2.96 168

AM Official 134.80 -1.55 137.50 133.50 2.96 168

Kerb close 134.80 -1.55 137.50 133.50 2.96 168

Open int. 135.00 -1.80 - - - 5

Total 135.00 -1.80 - - - 5

■ SILVER COMEX (100 Troy oz; \$/troy oz)

Close 533.4 -18.7 - - - 2

Previous 533.4 -18.7 - - - 2

High/Low 533.4 -18.7 - - - 2

AM Official 533.4 -18.7 - - - 2

Kerb close 533.4 -18.7 - - - 2

Open int. 533.4 -18.7 - - - 2

Total 533.4 -18.7 - - - 2

■ CRUDE OIL NYMEX (42,000 US gals; \$/barrel)

Close 18.23 -0.08 18.32 18.11 14.45 42,674

Previous 18.23 -0.08 18.32 18.11 14.45 42,674

High/Low 18.23 -0.08 18.32 18.11 14.45 42,674

AM Official 18.23 -0.08 18.32 18.11 14.45 42,674

Kerb close 18.23 -0.08 18.32 18.11 14.45 42,674

Open int. 17.72 -0.02 17.80 17.65 35.32 6,859

Day's High 17.72 -0.02 17.80 17.65 35.32 6,859

Day's Low 17.72 -0.02 17.80 17.65 35.32 6,859

Total 17.7

FINANCIAL TIMES THURSDAY JUNE 2 1994

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TRANSPORT - Cont.[illegible][illegible][illegible]

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AUTHORISED UNIT TRUSTS

[illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible]

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lauto SS

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

RED PRICE: Also called redemption price. The price at which units are sold back by investors.

publication and may not be the current closing levels because of an intervening portfolio revelation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The latest 5 days

[illegible]

TIME: The time shown alongside the fund manager's name is the time of the unit trust's latest point at which another time is indicated by the period separating the individual unit trust name. The available are as follows: (P) - 2001 to 1100 hours; (M) - 1100 to 1400 hours; (A) - 1400 to 1700 hours; (E) - 1700 to midnight.

Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

Rank	Name	Points
1	Joe Adams	221.75
2	Joe Adams	200.00
3	Joe Adams	188.75
4	Joe Adams	177.50
5	Joe Adams	166.25
6	Joe Adams	155.00
7	Joe Adams	143.75
8	Joe Adams	132.50
9	Joe Adams	121.25
10	Joe Adams	110.00
11	Joe Adams	98.75
12	Joe Adams	87.50
13	Joe Adams	76.25
14	Joe Adams	65.00
15	Joe Adams	53.75
16	Joe Adams	42.50
17	Joe Adams	31.25
18	Joe Adams	20.00
19	Joe Adams	8.75
20	Joe Adams	0.00

[illegible]

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466
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OTHER OFFSHORE FUNDS

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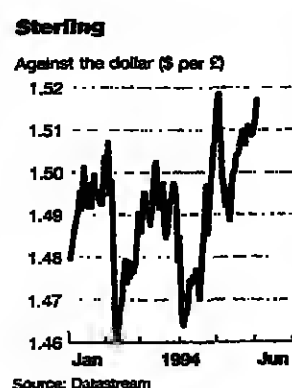
CURRENCIES AND MONEY

MARKETS REPORT

Focus on Futures

Foreign exchanges yesterday again played second fiddle to interest rate markets where prices fell across the yield curve, writes Philip Gaultier.

Trade in euromark and short sterling futures was robust and prices very volatile. The December sterling contract closed at \$9.49 from \$9.50, while the equivalent euromark future fell by six basis points to 94.81. Movements in the back month contracts were even more dramatic.



Sterling

Against the dollar (\$ per £)

Source: Datastream

Pound in New York

Jun 1 - Jun 1994

1m 1.5185 1.5105

3m 1.5178 1.5098

6m 1.5151 1.5068

1y 1.5151 1.5068

point in the market.

Analysts said there appeared to be tremendous value at current levels, but there was no buying interest. It was difficult to persuade clients to buy, who prices seemed, inexorably, cheaper the following day.

Volumes were fairly large, with December short sterling trading 40,000 lots, and December euromark nearly 51,000 lots.

The dollar was unaffected by the release of the May purchasing managers index which was steady at 57.7, although the price component rose to 71.5 from 69.3 in April.

Analysts said the dollar would stay in its recent narrow trading range of DM1.6390-DM1.6480 until the release tomorrow of the non-farm payroll figures. Mr Ian Gunner, international economist at Chase Manhattan in London, said "expectations about the US economy are so solidly in place that it is difficult for a set of figures to make much impact."

The dollar managed to resist some potentially negative comments from two Bundesbank council members. Although Mr Gunter Palm said there was still room for movement on the rate, he also added that "at the current time it would appear that a stopping point, if not a turning point, is in sight for interest rate policy."

Mr Olaf Sievert, meanwhile,

head of the regional central bank for Saxony and Thuringia, effectively discounted the prospect of imminent Bundesbank intervention to support the dollar.

"The Bundesbank is not at the ready, waiting to intervene in the market at a dollar rate of DM1.64. All rates in the region of DM1.70 or DM1.65 are not a problem for us," he said.

In Europe the Danish krone closed at DKR3.929 against the D-Mark, down from DKR3.919 on May 30. The Swedish krona also fell, closing at SKR4.78 from SKR4.68 on May 30.

Mr Avinash Persaud, head of currency research at JP Morgan (Europe) said the weakening of these currencies was driven by foreign investors selling bonds. One possible explanation for the trend is that markets are suffering from greater competition for banks' funds, with more money diverted, for example, into corporate lending.

The JP Morgan analyst said the reason the Scandinavian currencies had been particularly affected was that both were fairly exposed to international investors, and less liquid than some other markets.

Mr Persaud said international investors were also concerned that governments faced with elections would not be able to administer the sort of fiscal medicine their economies required. He predicted that other countries like Spain and France, faced with a similar confluence of events, might also experience currency weakness in future.

The Bank of England provided late assistance of £35m to UK money markets after forecasting a £350m shortage. Overnight money moved between 4 per cent and 6 per cent.

German call money fell back to 5.15/5.25 per cent from 5.75/5.95 per cent on Tuesday.

OTHER CURRENCIES

Currency	Rate	Change
Hong Kong	100.00	0.00
Malaysia	100.00	0.00
New Zealand	100.00	0.00
Philippines	100.00	0.00
Singapore	100.00	0.00
South Korea	100.00	0.00
Taiwan	100.00	0.00
Thailand	100.00	0.00
USA	100.00	0.00

POUND SPOT FORWARD AGAINST THE POUND

Area	Closing mid-point	Change on day	Bid/offer spread	Day's High/Low	One month rate %PA	Three months rate %PA	One year rate %PA	Bank of Eng. Index	
Europe								114.2	
Austria	(S\$)	17.5309	-0.0543	266 - 411	17.5487 17.4574	17.5301	0.3	17.5245	0.2
Belgium	(F\$)	51.3162	-0.0004	513 - 958	51.4250 51.1720	51.3232	-0.4	51.3432	-0.1
Denmark	(DK\$)	9.7820	-0.0004	985 - 654	9.9000 9.7554	9.7998	-1.0	9.8125 - 0.8	9.8136
France	(F\$)	6.2794	-0.0555	702 - 885	6.3200 6.2120	6.2531	-0.4	6.4973 - 0.3	6.4978
Germany	(FM\$)	6.5208	-0.0005	248 - 348	6.5318 6.4824	6.5285	-0.8	6.5233 - 0.4	6.5233
Greece	(D\$)	370.582	-0.0004	3705 - 684	371.0000 369.9999	370.582	-2.4	370.582	0.1
Ireland	(£)	1.0231	-0.0005	196 - 208	1.0330 1.0170	1.0232	-0.8	1.0288 - 0.7	1.0296
Italy	(L\$)	2415.39	-0.0004	24153 - 4529	2415.39 2415.39	2415.39	-0.4	2415.39	0.1
Luxembourg	(F\$)	51.3162	-0.0004	513 - 958	51.4250 51.1720	51.3232	-0.4	51.3432 - 0.2	51.3432
Netherlands	(G\$)	2.7841	-0.0004	977 - 194	2.7982 2.7857	2.7838	0.1	2.7847 - 0.1	2.7722
Norway	(N\$)	0.1833	-0.0004	987 - 184	0.1933 0.1770	0.1870	0.8	0.1802 - 0.2	0.1813
Portugal	(E\$)	258.883	-0.0004	2588 - 484	259.883 258.883	258.883	-4.5	258.883	0.1
Spain	(P\$)	208.613	-0.0004	997 - 729	209.883 205.083	208.613	-2.9	208.998 - 2.7	209.503
Sweden	(S\$)	11.5328	-0.0004	245 - 406	11.6428 11.4777	11.5656	-1.3	11.8906 - 1.9	12.0898
Switzerland	(SF\$)	2.1210	-0.0006	200 - 228	2.1286 2.1121	2.1204	0.8	2.1167 - 1.0	2.0877
UK	(£)	1.2945	-0.0003	940 - 950	1.2954 1.2898	1.2941	-1.5	1.2918 0.8	1.291
USA	(D\$)	0.396505	-0.0004	396 - 74	0.396505	0.396505	0.396505	0.396505	0.3
Asia									
Argentina	(Peso)	1.5142	-0.0002	138 - 145	1.5167 1.5068	1.5142			
Brazil	(C\$)	2884.78	-58.61	420 - 538	2900.00 2831.00	2884.78			
Canada	(C\$)	2.1035	-0.0007	027 - 043	2.1071 2.0884	2.1052	-1.0	2.1059 - 1.0	2.1275
Mexico	(New Pes\$)	5.0398	-0.0004	503 - 94	5.0454 5.0191	5.0398			
USA	(D\$)	1.0131	-0.0005	168 - 174	1.0138 1.0095	1.0131	0.7	1.5149 0.8	1.5105
Pacific/Middle East/Africa									
Australia	(A\$)	2.0483	-0.0003	472 - 494	2.0535 2.0425	2.0478	0.4	2.0466 0.4	2.0451
South Africa	(R\$)	11.7204	-0.0004	1172 - 234	11.7370 11.6911	11.7123	0.8	11.7094 0.4	11.7254
Hong Kong	(H\$)	47.6009	-0.0004	858 - 160	47.6777 47.3570	47.6009			
Japan	(Y\$)	158.765	-0.0002	657 - 137	159.270 158.050	158.345	3.2	157.555 3.0	159.39
Malaysia	(M\$)	3.9122	-0.0001	106 - 137	3.9170 3.9048	3.9122			
Philippines	(P\$)	40.8101	-0.0004	707 - 654	40.8101 40.8101	40.8101	2.9	40.8101	0.1
Singapore	(S\$)	5.6888	-0.0003	880 - 918	5.6989 5.6612	5.6888			
South Korea	(K\$)	5.5158	-0.0004	920 - 251	5.5274 5.4988	5.5158			
Switzerland	(S\$)	7.2699	-0.0004	1273 - 160	7.2851 7.2488	7.2699			
Thailand	(T\$)	122.011	-0.0005	503 - 635	122.635 121.375	122.011			
Taiwan	(T\$)	122.011	-0.0004	278 - 339	122.635 121.375	122.011			
Thailand	(T\$)	38.2688	-0.0002	613 - 858	38.4100 38.1200	38.2688			
Taiwan	(T\$)	38.2688	-0.0002	613 - 858	38.4100 38.1200	38.2688			

1500 rate for May 31. Bid/offer spreads in the Pound Spot table show only the best three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Bid/offer spreads in the Dollar Spot table show only the best three decimal places. Bid/offer spreads in both the Dollar and Pound Spot tables are not directly quoted to the market but are implied by current interest rates. UK, India & ECU are quoted in US dollars. All rates are for 100 units of the foreign currency against 1 unit of the domestic currency.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

DOLLAR SPOT FORWARD AGAINST THE DOLLAR											
Jun 1	Closing mid-point	Change on day	30-day spread	Day's high low	One month Rate %PA	Three months Rate %PA	One year Rate %PA	J.P. Morgan index			
Europe											
(S\$)	11.5575	-0.005	590 - 600	11.5450 11.5455	11.5565 -0.8	11.5568 -0.4	11.4933 0.8	100.4			
Austria	(F)	33.8295	-0.004	120 - 410	33.8200 33.7950	33.8295 -1.1	33.8015 -0.1	33.8995 -0.1	104.8		
Belgium	(F)	51.3164	-0.0005	514 - 554	51.3000 51.4000	51.3014 -0.7	51.4774 -0.8	51.4944 -0.2	104.2		
Denmark	(DK)	5.4574	-0.0174	524 - 823	5.4531 5.4330	5.4814 -0.9	5.4669 -0.9	5.4569 -0.8	104.9		
France	(FF)	51.8105	-0.003	150 - 180	51.8303 51.822	52.0277 -1.3	51.6511 -0.1	51.6048 0.2	104.9		
Germany	(DM)	2.4842	-0.0007	425 - 430	1.4849 1.4804	1.4844 -0.3	1.4742 -0.2	1.4973 0.3	105.4		
Greece	(D)	24.2450	-0.25	2450 - 2455	24.4700 24.50	24.51 -0.6	24.32 -0.2	24.34 -1.2	104.2		
Ireland	(£)	1.1799	-0.0003	780 - 630	1.1828 1.1757	1.1783 -0.8	1.1658 -1.2	1.1698 -0.6	104.9		
Italy	(L)	1892.50	+1	200 - 300	1994.90 1590 13	1598.55 -3.4	1805 -3.1	1831 -0.4	104.3		
Luxembourg	(F)	33.8265	-0.004	120 - 410	34.0000 33.7950	33.8595 -1.1	33.8015 -0.8	33.8995 -0.1	104.8		
Netherlands	(G)	2.7841	-0.0005	278 - 280	2.7840 2.7840	2.7841 -0.4	2.7841 -0.4	2.7841 -0.4	104.8		
Norway	(N)	1.1276	-0.004	265 - 280	7.1485 7.1127	7.1231 -0.8	7.1401 -0.7	7.1078 0.3	95.6		
Portugal	(E\$)	170.850	-0.1	500 - 600	171.050 170.500	172.055 -0.8	174.05 -0.8	174.85 -0.2	92.8		
Spain	(P\$)	135.530	-0.045	480 - 590	135.300 135.300	135.945 -3.7	136.645 -3.6	138.655 -0.3	80.1		
Sweden	(SF)	7.8954	-0.072	618 - 690	7.8763 7.8701	7.8954 -3.1	7.9154 -2.5	8.0004 -1.7	81.3		
Switzerland	(S)	1.3068	-0.0005	982 - 990	1.3092 1.3087	1.3087 -1.1	1.3322 -0.4	1.3412 -0.2	92.8		
UK	(£)	1.1711	-0.0003	168 - 174	1.1518 1.1505	1.1612 -0.7	1.1514 -0.6	1.1510 0.4	88.9		
USA	(D)	1.1170	-0.0009	717 - 722	1.1172 1.1177	1.1196 2.2	1.1678 1.4	1.1771 -0.4	-		
BDT	(S)	1.41733	-	-	-	-	-	-	-		
Asia											
Argentina	(P\$)	0.9981	-0.0001	980 - 961	0.9892 0.9879	-	-	-	-		
Brazil	(C)	1908.11	+32.81	810 - 812	1908.15 1908.10	-	-	-	-		
Canada	(C\$)	1.3866	-0.0001	863 - 868	1.3881 1.3827	1.3868 -1.7	1.3922 -1.6	1.4096 -1.7	83.1		
Mexico (New York)	(S)	3.2300	-0.0001	310 - 250	3.2305 3.1350	3.321 -0.4	3.3228 -0.3	3.3302 -0.3	-		
Pacific/Middle East/Africa											
Australia	(A\$)	1.3502	-0.0003	497 - 506	1.3568 1.3492	1.3555 -0.7	1.3554 -1.2	1.3527 -0.2	89.8		
Hong Kong	(H\$)	7.7255	-0.0045	290 - 260	7.7360 7.7250	7.7299 -4.1	7.7474 -1.1	7.7417 -0.2	-		
Japan	(Y)	11.0735	-0.0005	1100 - 1100	11.0730 11.0730	11.0735 -0.5	11.0735 -0.5	11.0735 -0.5	104.9		
Malaysia	(M)	10.4850	-0.0005	800 - 700	10.4830 10.4550	10.4515 2.2	10.5005 2.5	10.4126 3.1	145.0		
Philippines	(M\$)	25.978	-0.0005	782 - 790	25.9828 25.780	25.782 2.5	25.9677 1.7	25.9897 -0.8	-		
New Zealand	(NZ\$)	2.6830	-0.0001	821 - 841	1.6818 1.6818	1.6849 -1.3	1.6893 -1.5	1.7112 -1.7	-		
South Africa	(R\$)	11.7204	-0.0005	500 - 510	11.7000 11.7000	11.751 -0.2	11.7581 -0.3	11.7658 -0.4	-		
Singapore	(S\$)	5.1520	-0.0012	315 - 325	5.1540 5.1513	5.1513 0.8	5.1531 0.3	5.1533 -0.1	-		
South Korea	(A\$)	6.3638	-0.0053	360 - 365	3.6365 3.6200	3.6513 -0.1	3.6796 -0.8	3.7963 -3.3	-		
Thailand	(A\$)	4.7900	-0.1	400 - 000	4.8000 4.7900	4.8227 -0.5	4.8285 -0.7	-	-		
Taiwan	(N\$)	10.0735	-0.0005	1000 - 900	10.0730 10.0730	10.0735 -0.5	10.0735 -0.5	10.0735 -0.5	-		
Thailand	(T\$)	27.0738	-0.0188	710 - 765	27.0605 27.0700	27.0938 -0.9	27.1828 -0.9	-	-		
Thailand	(T\$)	25.2250	-0.025	200 - 200	25.2000 25.2000	25.2075 -0.4	25.2425 -0.3	25.5005 -0.7	-		
BDT rates for May 31. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted on the Dollar Spot table.											

1500 rate for May 31. Bid/offer spreads in the Dollar Spot table show only the best three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Bid/offer spreads in the Dollar and Pound Spot tables are not directly quoted to the market but are implied by current interest rates. UK, India & ECU are quoted in US dollars. All rates are for 100 units of the foreign currency against 1 unit of the domestic currency.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 1	DFY	DKR	FFr	DM	£	L	F	
Belgium	(BFf)	100	19.08	18.60	4.866	1.987	4708	5.444
Denmark	(DKr)	62.241	10	8.702	2.545	1.407	2487	2.853
France	(FFr)	66.23	11.46	10	2.923	1.203	2835	2.972
Germany	(DM)	100	19.08	3.929	2.431	1.01	1.151	1.151
Ireland	(£)	50.00	9.553	8.313	2.431	1	2.957	2.726
Italy	(L)	2.124	4.045	0.353	0.103	0.042	100	0.118
Netherlands	(G)	3.305	3.005	3.050	1.357	0.587	684.7	1.000
Norway	(Nkr)	47.47	8.052	8.288	2.905	0.968	2.585	2.585
Portugal	(E)	18.82	3.758	3.291	2.963	0.968	6332	1.079
Spain	(Pta)	24.46	4.763	4.144	1.212	0.486	1179	1.398
Sweden	(Sfr)	100	8.702	8.710	1.488	0.486	1179	1.398
Switzerland	(SF)	24.46	4.815	4.016	1.174	0.486	1179	1.397
UK	(£)	51.32	9.792	6.521	2.492	1.025	2416	2.984
Canada	(Cdn)	4.938	4.054	4.043	1.488	0.486	1185	1.485
USA	(C)	33.83	6.465	5.617	1.643	0.718	1890	1.762
Japan	(Y)	333.4	7.101	53.69	15.70	0.486	15224	1.781
Malaysia	(M)	39.63	8.561	6.580	1.924	0.762	1868	1.596

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FOREIGN EXCHANGE

Thursday June 2 1994

Hedge funds - cowboys of the financial markets
Page 6

More turbulence may lie ahead for the dollar
Page 2

The time for easy pickings is over. After several years of rapidly growing turnover and strong profit growth, the global foreign exchange business is suffering.

The markets this year have had to adapt to adverse conditions and cope with frustrated expectations. The dollar has been weak, instead of rising as widely predicted. This year's bloodbath in the world's bond markets has inflicted heavy losses on some of the more aggressive currency traders leading to a shrinkage of liquidity and an injection of caution into their activities.

"The mood among the big foreign exchange and bond players is grim," says Jim O'Neill, head of global research at Swiss Bank Corp in London. According to one senior analyst, trading conditions "are the worst they have been for six years and some people have made big losses."

The current gloom contrasts with the boom years of the early 1990s when global turnover soared to \$1,000bn a day and currency traders and investors were presented with a number of relatively safe bets.

With the industrial countries in recession, it was easy to work on the assumption that interest rates were heading downwards and make money accordingly. The market could also exploit policy errors, such as the determination of the UK and Italian governments to defend sterling and the lira in the European exchange rate mechanism until their forced exits in September 1992.

The decision last August of the European Union's finance ministers to widen the ERM fluctuation margins to 15 per cent either side of the system's bilateral central rates from 2.25 per cent and 6 per cent previously, removed one of the biggest one-way bets from the market at a stroke. The French franc and British pound have been effectively sidelined in currency trading this year.

Most action has been in the "triad" currencies - the dollar, the yen and the D-Mark. And it is in those currencies that some of the sparest operators



Chastened traders yearn for trend

Peter Norman assesses the outlook as the markets try to cope with frustrated expectations

have come unstuck.

At New Year, the forecasters' consensus was that the dollar would fluctuate between Y112 and Y114 and DML76 and DML78 between Easter and the end of the year. Early last month, it was heading towards record low levels against the yen and threatened to breach the psychologically important Y100 barrier. The dollar remains groggy despite subsequent central bank intervention, rising US interest rates and falling rates in Germany.

The dollar's weakness has been a reminder of how fickle markets can be. In January, the dollar looked sure to rise because the US economy was generally expected to grow faster than its main trading rivals, forcing interest rate differentials to move in the dollar's favour as the US tightened monetary conditions and

Germany, and possibly Japan, eased. Instead a US-Japanese confrontation on trade and the spill-over effects of higher US interest rates on highly leveraged bond markets achieved the reverse effect. The Clinton administration's aggressive tactics and "shoot-from-the-lip" diplomacy to

force Japan to cut its bilateral trade surplus with the US were construed - rightly or wrongly - as signs that the US wanted a higher yen to achieve its trade goals. Open disagreement between President Bill Clinton and the former Japanese prime minister, Morihiro Hosokawa, at a meeting on February 11 caught

speculative traders, including some lightly regulated offshore hedge funds and the proprietary trading desks of some large investment banks, off guard. As the US currency slumped in response to the trade news, they were forced into a costly liquidation of positions built on borrowed funds in anticipation of a rising dollar.

The decision of the Federal Reserve Board earlier in February to start raising US interest rates was intended as a pre-

emptive, confidence-building strike against inflation. Instead, it caught the global bond markets unprepared.

The subsequent scramble out of bonds caused heavy losses among highly leveraged operators including hedge funds, destroying part of their capital and curtailing their ability and willingness to indulge in further speculation in the foreign exchange and other financial markets.

There had already been some victims from the ERM upheavals of 1992 and 1993, including Bank Negara, the Malaysian central bank, which made the costly mistake of backing sterling in 1992. This year's speculative turmoil has claimed new scalps. George Soros, the financier who reported making \$1bn during the 1992 sterling crisis, admitted losing \$600m when a bet against the yen went sour.

One senior analyst estimates that this year's trading losses have shrunk the hedge funds' capital from around \$30bn to \$15bn. On the assumption that such funds leverage their capital tenfold, their losses have taken about \$150bn in liquidity from the market. Possibly reflecting the hedge funds' problems, recent attacks on the Greek drachma and Portuguese escudo have appeared half-hearted compared with the assaults on EU currencies in previous years.

This year's trading upsets have encouraged some other changes in behaviour. Symptoms of a "back-to-basics" trend are a determination among some banks to pay more attention to customer business and a revived interest in "fundamentals" in the analysis of currency movements.

More attention is being given to the global flow of funds. Some fundamentalists ascribe the dollar's weakness to a continuing diversification by US financial institutions, such as pension funds, of their investments outside the US while Japanese investors are pulling back from involvement abroad.

Others, such as Neil MacKinon, Citibank's chief currency strategist, say the market paid insufficient attention to "volume analysis" showing that market participants were very

heavily invested in the dollar last summer. That has meant little natural demand for the US currency even when it has appeared a bargain.

Another group, including Mr O'Neill, a long-time dollar bear, argues that the dollar is bound to be soft given the chronic US current account deficit that has totalled \$1,025bn since 1984. The International Monetary Fund has forecast a continuing deterioration in the US current account to \$169bn in 1995 from \$109bn last year.

If nothing else, constrained liquidity and increased uncertainty have enhanced the power of one group of players: the central banks. Intervention by up to 17 central banks headed by the US Federal Reserve successfully halted a threatened fall by the dollar through the Y100 level last month.

But although this was the first instance of large-scale concerted intervention since October 1992, it does not pre-empt a new drive by the leading industrial nations to enforce currency stability. The collapse of communism and the installation of an "America-first" administration have weakened the ties among the Group of Seven nations. Concerted intervention, if and when it takes place, will reflect an opportunist consensus or temporary identity of interests among the big industrial powers and is therefore likely to be a relatively rare event.

These various forces have left the market "yearning for a trend to emerge", says Paul Cherkow, head of global currency research at Union Bank of Switzerland. After investing heavily in their foreign exchange operations in recent years, few operators are happy with the present regime of relatively small plays and correspondingly small gains.

A clear trend could appear if the current uncertainty over the dollar crystallised into either a break with, or confirmation of, what remains of the bullish consensus for the US currency. That would mean renewed volatility in trading, offering a chance for this year's losers to rebuild their profits.

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FOREIGN EXCHANGE 2

While the beleaguered dollar struggles against the rising yen, the D-Mark and sterling remain surprisingly resilient

After opening the year on a bullish note, supported by the US economy's strong performance and expectations of higher domestic interest rates, the dollar dropped sharply in April as short-term negative influences – an ill-conceived government dollar policy, deteriorating US-Japan trade relations, and political uncertainties at home and abroad (notably in Korea and Mexico) – overwhelmed the positive fundamentals. The situation deteriorated so quickly that by early May massive intervention by up to 17 central banks was required to halt the US currency's free fall.

While the central banks' actions appeared to have set a short-term floor for the dollar around DM1.65 and ¥104, the foreign exchange markets wonder what the next six to 12 months holds for the beleaguered greenback: further depreciation, or recovery?

Although currency analysts warn that more turbulence may lie ahead in the short term, most feel that the outlook is brighter for the dollar, if only because the Clinton administration – after attempting to "talk down" the dollar to narrow the trade gap with Japan – has finally changed the course of its policy.

Allen Sinai, chief global economist at Lehman Brothers, says: "We've seen the

More turbulence may lie ahead for the US currency in the short term, warns Patrick Harverson

Japanese trade row clouds the future

bottom in the dollar. The main reason is that the US administration has [realised] that allowing the perception to exist that the US has a dollar depreciation policy was a big mistake. It was clearly counter-productive, because [any benefit derived from] the opening of Japanese markets that might have come from using the dollar as a political club against Japan was much less than the political cost of the higher interest rates that come off a lower dollar."

Realising that it cannot afford, for political reasons, to allow a weaker dollar to pull long-term interest rates higher, the US government is now committed, in word and deed, to support the US currency against the yen and the D-Mark.

John Lipsky, chief economist at Salomon Brothers, says: "There were no magic wands waved by the intervention that will completely change the outlook for currencies. Yet, the G7's actions, and the change in US policy regarding the

dollar... have truncated the downside risks for the dollar. The G7 is not trying to draw a line in the sand, or define a specific target band for currencies – but the message is clear. Additional dollar depreciation, especially in the context of weakening capital markets, will be resisted by the US authorities, with the co-operation of other central banks."

Analysts are confident that the foreign exchange market has got this message, because institutional investors and currency speculators realise that the central banks have the room within their domestic monetary frameworks to take whatever action is needed to protect the dollar. As Mr Lipsky puts it: "There is no policy dilemma facing central banks in supporting the dollar," because the needs of European and Japanese economies are likely to require further stimulation from easier monetary policy in the near future.

The Bundesbank's decision to cut 50 basis points off German interest rates on

May 11, for example, was taken with one eye fixed on the dollar. Although the Bundesbank explained the move in purely domestic economic terms, it was in its interests to provide the dollar with a much-needed lift, for a weak US currency was posing a danger to Germany's export recovery.

The May cut in German rates should shift the interest rate differentials further in the US currency's favour if, as is expected, the Federal Reserve continues to tighten US monetary policy during the late spring and early summer.

Much also depends on how US financial markets behave over the coming months. Declines in the price of US assets was one of the factors behind the dollar's recent slide. Anticipating trouble ahead for the inflation-obsessed US bond market, and for the vulnerable and US stock market, international investors steered clear of dollar-denominated assets during March and April.

Ironically, further monetary tightening by the Fed – normally negative for bond and equity prices – might come to the US markets', and thus the dollar's, rescue. If, by raising rates a few more notches the Fed convinces the bond market that it will be able to stave off a resurgence of inflation, long-term bond yields should start to come down. This would breathe new life into US equities, and in the process make international investors more likely to buy dollars to purchase US financial assets.

While the US administration's new dollar policy, improving interest rate differentials, and a possible strengthening in US financial markets are all factors in the dollar's favour over the coming months, there is one cloud hovering over the US currency that will not go away: US-Japan trade relations.

The failure of the new Japanese prime minister Tsutomu Hata to build a majority in parliament makes another general

election likely, probably after the passage of the next fiscal budget in June. With so much uncertainty surrounding the political situation in Japan, an early resolution of the trade dispute between the US and Japan cannot be expected. Consequently, the dollar is likely to remain vulnerable in the near-term to speculative selling against the yen. Some analysts predict that the US currency could fall through the headline-grabbing ¥100 level, albeit only temporarily.

Over the longer-term, however, analysts feel confident that a gradual improvement in the US's trade balance with Japan, prompted by a strengthening US export sector and some modest opening up of Japanese markets to overseas goods, will allow the dollar to climb back from its lows against the yen.

Mr Sinai at Lehman envisages the dollar reaching ¥105 by midsummer, then appreciating to ¥110 or more by the end of the year, while Mr Lipsky at Salomon makes a similar prediction, forecasting ¥110 by the year end.

As for the dollar/DM rate, analysts expect a widening differential between the two countries' interest rates and economic performance to boost the dollar to at least DM1.70 by the summer and DM1.75 by Christmas.

The recent trade friction with the US has been highlighted by the Japanese media as the main reason for the yen's rise, but a closer look indicates that there may be more technical forces at work.

The capital flows into and out of Japan provide some explanation for the recent trend of a rising yen and a weakening dollar – Japanese investing less in overseas bonds, shares, and golf courses, and foreign investors buying yen to purchase Japanese shares.

During the economic "bubble" of the late 1980s, Japanese institutional investors were the largest suppliers of capital in the international markets. According to the Bank of Japan annual net outflow of long-term capital averaged \$110bn between 1983 and 1989. This fell sharply in the 1990s and in 1992 there was a total outflow of \$28.5bn while last year the outflow was \$78.3bn.

The ratio of overseas securities to total investment assets at Japanese life insurers, the country's leading institutional investors, for instance, fell to 9.2 per cent at the end of last year, down from 15.7 per cent in 1989.

The customary repatriation of funds during the January-

March quarter, the final quarter of the business year, when institutions sell their foreign securities holdings to shore up dwindling profits, has also put downward pressure on the dollar and pushed up the yen.

The liquidation of US real estate assets has had the same effect. Last year, Japanese corporations sold or partially disposed of \$17.5bn of US properties, nearly a quarter of the total US property portfolio built up by the Japanese institutions since the start of the investment boom in 1985, according to Kenneth Leventhal, the US accountancy firm.

Japanese investors have also reduced the purchase of US

financial assets this year

because of a tightening of US interest rates. During the final quarter of last year, Japanese institutions bought \$37.5bn of US shares and bonds. That figure declined sharply to \$3.5bn for the first two months of this year.

Meanwhile, the buying of Japanese shares by overseas investors has also helped boost the yen. The Bank of Japan

says overseas investment in

Japanese stocks was a record \$34.5bn during the first quarter, the demand coming mainly from US pension funds.

The strong yen has triggered an outcry from the business community, because it affects severely the competitiveness of Japanese companies. The Economic Planning Agency estimates that Japan's export industries are on average competitive at ¥117 to the dollar.

The Keidanren, the business leaders' federation, reckons each 5 per cent rise in the yen-dollar rate knocks 0.3 of a percentage point off annual gross domestic product growth.

But while capital flows may influence the underlying strength of the yen, much of the latest volatility has been caused by speculators. The breakdown of the US-Japan bilateral trade talks – the US is pressuring Japan to cut its large current account surplus by stimulating demand and improving market access – prompted expectations that the

Emiko Terazono says the strong Japanese currency has upset business

Yen for the yen hits dollar

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Central bank intervention in itself is normally insufficient

to support a currency, but some analysts believe that the recent rise in US interest rates, and the easing of short-term money market rates in Japan, will widen interest rate differentials enough to curb the further rise of the yen. Shrinkage of Japan's current account surplus, and lower capital inflows, would assist further.

With the US administration seemingly adopting a more moderate stance towards Japan, Salomon Brothers in

Tokyo, believes that the yen's appreciation has entered the final phase. "Over the next few months the yen is expected to weaken toward an exchange rate of ¥110 to the dollar," it says. Others, however, believe the market may yet test the ¥100 level before weakening.

With both US and Japanese trade officials making positive noises on bilateral trade, the volatility on the currency market which accompanied the breakdown of the talks in March will probably be reduced. Although comprehensive tax reforms may be delayed, due to the minority government, an announcement of a continued income tax cut into next fiscal year is expected to be acceptable to the US.

Other fundamental factors – economic growth and interest rates – may be moving in opposite directions. Keith Skeoch, director of research at James Capel, feels that the medium-term outlook for sterling is quite good. On interest rates he expects "German rates will get down to around 3 per cent on the back of sluggish growth and low inflation, while there is increasing evidence that we are close to the bottom of the base rate cycle in the UK. The pound should start to benefit from a positive interest rate differential."

He also believes that rate differentials will help the dollar strengthen against the D-Mark, and adds that "sterling normally does reasonably well in an environment where the dollar is running". He believes the pound could climb to DM2.70.

However, because European countries are expected to come out of recession this year, Mr Geddes thinks that Britain's "growth advantage" will start to disappear.

The political outlook might not seem to matter, given that the government does not have to call an election until 1997. But, according to Skeoch, "the main uncertainty in the medium term is that Major stays and is perceived by the markets as a lame duck PM."

So pronounced is sterling's record of depreciation, that cynics will need overwhelming evidence to believe the bull case for the pound. That evidence, or the depressingly familiar bearish story, can only come when the UK is further advanced in its recovery, and cyclical factors have had their maximum chance to inflict damage on the inflation and balance of payments numbers.

Sterling has benefited from being on the sidelines, writes Philip Coggan

Stable pound confounds cynics

After the excitement of 1992, when sterling left the exchange rate mechanism, the pound has been remarkably stable.

Apart from a brief dip in February and March of 1993, the pound has tended to trade in a range around the DM2.50 level and in an even narrower band around \$1.50.

In part, this is because the worst fears aroused at the time of the ERM departure have not been realised. For once, devaluation has not led to a resurgence of inflation in the UK. Indeed, underlying inflation (excluding mortgage payments) has dropped to its lowest level since the 1960s.

Furthermore, throughout 1993, the UK's status, along with the US, as one of the few growing economies in the developed world made it a home for portfolio capital.

Sterling has also benefited from being on the foreign exchange sidelines over the past 18 months. Traders' focus has been on the breakdown of the narrow band ERM and on the dollar/yen cross-rate.

Over the medium term, there are probably two key factors for sterling. The first is whether Britain has conquered its old problems – high inflation and balance of payments crises – or whether the demons will return as soon as the recovery hits its stride.

The second is whether the Conservative party is merely suffering its normal mid-term blues or is finally going to lose office.

The government has worked hard to try to create credibility for its economic policies after the ignominious departure from the ERM. A new monetary framework has been created, with the Bank of England at its forefront. Underlying

inflation is now targeted at 1-4 per cent, with the aim of getting the rate into the lower half of the range by the end of the year.

The Bank writes quarterly inflation reports, is allowed to choose the timing of base rate changes and has its views aired in the minutes of the monthly monetary meetings. All this is designed to reassure financial markets that "steady Eddie" George, the Bank governor, is looking after their interests, rather than inflation-prone politicians.

The new arrangements have not gone without a hitch. February's decision to cut base rates by a quarter of a percentage point to 5.25 per cent was not received well by the markets, and may have limited the scope for further cuts.

Gilt markets have consistently signalled inflationary expectations of 4 per cent or so, indicating some scepticism about the government's ability to meet its target. Signs of a pick-up in the annual growth rate of average earnings will have confirmed bearish fears. Nevertheless, producer price

figures and survey details, continue to show that inflationary pressures are subdued.

On the balance of payments problem, Mark Geddes, treasury economist at Midland Global Markets, says that while "recovery in Europe should increasingly help UK exporters, the size of the current account deficit following several years of below trend growth and a 10 per cent devaluation of the pound, remains a worry. The inaccurate nature of current trade statistics potentially disguises the true problem, and a prerequisite for sterling's ability to maintain a value above DM2.50 over the longer term will be a stabilisation in the trade deficit."

Trade within the European Union is now recorded under the Intra-Stat system, based on the value added tax returns, and this has led some to believe that the statistics are under-reporting imports. Furthermore, official figures showing that exporters have been raising prices, rather than chasing market share, are contradicted by Confederation of British Industry evidence.

Despite consensus among economists that the dollar should rise against the D-Mark during 1994, the German currency has proved stubbornly strong.

Economists put the D-Mark's resilience down to two factors – inherent weaknesses in the outlook for the US currency, coupled with increasing support from economic fundamentals for the D-Mark.

On the US front, economists cite a host of factors which led to dollar weakness, despite the likelihood of further Fed tightening of interest rates. These range from investors' demand for a higher yield on US securities to compensate for the risks of holding such investments after a period of high volatility in the US government bond market, to the perception that President Bill Clinton's administration considers it politically desirable to see a weaker dollar versus the yen to enhance the

US's trading position relative to Japan.

While trade relations between Japan and the US do not directly touch the US currency's relationship with the D-Mark, the D-Mark strengthens by default as a result. The optimistic Dresdner Bank, for example, expects the economy to grow by 2 per cent.

The rosier outlook for the economy has forced the financial markets to revise their expectations on the scale and timing of further cuts in short-term interest rates. The rationale for the change in outlook is that recovery makes it more likely that the Bundesbank will start increasing interest rates again to check the inflationary impact of better than expected growth.

Despite economists' expectations of further cuts in the discount rate during the year, euro-mark futures – which give rates for three-month borrow-

ing – tell a more pessimistic story. They suggest that the interest rates will reach a low point for the current monetary policy cycle in September this year at 4.7 per cent, compared to the present 5.1 per cent three-month rate. Threemonth rates will rise to 5.60 per cent by the end of next year, the futures market suggests, a reversal of earlier expectations that rates would carry on falling towards 4 per cent within 1994.

"This represents a sizeable correction in short-term rate expectations," comments Mr Joachim Fela at Goldmao Sachs in Frankfurt.

With German interest rates set to rise again as of the turn of the year, and the German economy pulling out of the doldrums, it is not surprising that the D-Mark's status as a "safe haven" currency is intact. This

Continued on page 3

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FOREIGN EXCHANGE 3

Contrary to expectations, the EMS has been remarkably calm, says Peter Norman

Emu hinges on political will

Central bankers, in the words of William McChesney Martin, a distinguished former chairman of the Federal Reserve Board, are the people who "take away the punchbowl just as the party is getting merry". Last summer, central bankers and finance ministers from the 12 European Union countries took away the biggest ever punchbowl from the global foreign exchange markets.

In the early hours of Monday, August 2, 1993, they widened the fluctuation margins in the exchange rate mechanism of the European Monetary System to 15 per cent either side of the EMS bilateral central rates from 2.25 per cent and 6 per cent previously. That decision followed a year of crisis in the EMS that had seen sterling and the Italian lira leave the system and numerous devaluations of other member currencies.

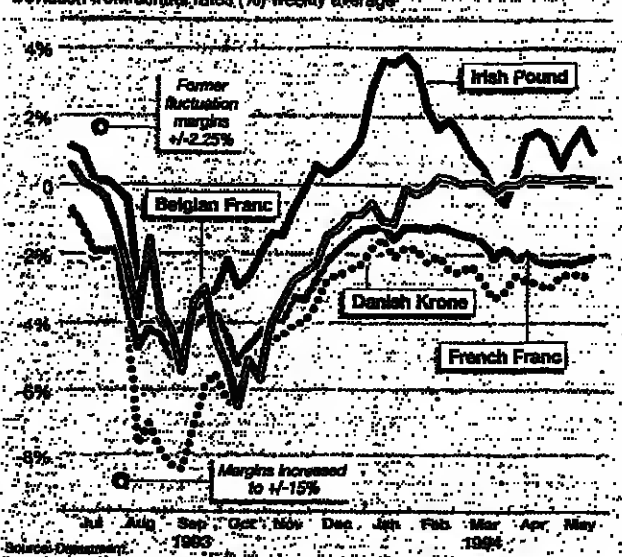
As the officials left Brussels after their difficult emergency meeting that weekend, few observers were prepared to bet that the EMS had much of a future. The new margins were so wide that they almost constituted a free float. It was generally expected that most of the currencies linked to the D-Mark through the ERM would depreciate sharply. With the EMS in apparent disarray, the European Union's ambitious plans for economic and monetary union by 1997 at the earliest, and falling that, by 1999, also seemed doomed to fail.

But contrary to expectations, the EMS has been remarkably calm for most of the past 10 months. France and the other core members of the ERM resisted the temptation to follow the UK example of slashing interest rates and allowing a depreciation of their currencies against the D-Mark. After an initial weakening, virtually all currencies returned to levels that were either within or close to the old intervention floors against the D-Mark.

Although the ERM is no longer perceived as a "glide path" to Emu, the return of calm to continental exchanges has revived interest in Emu. Few

Core ERM currencies against the D-Mark

Deviation from central rates (% weekly average)



expect Europe will have a single currency and central bank by the earliest deadline of the Maastricht Treaty, but the prospect of Emu by the end of the century is no longer laughed out of court.

Stage two of the Maastricht process has been under way since the beginning of this year. This involves intensified co-operation on economic policy-making among the 12 through the council of economics and finance ministers. In addition, the European Monetary Institute, which may be the embryo of the planned European central bank, began operating at the beginning of this year and is engaged on technical preparations for the third and final stage of Emu.

However, the obstacles to Emu are still formidable.

At a practical level, the EU has done little to ensure that bank notes, coinage or payments systems will be adapted in time for the proposed introduction of a single currency.

Politically, both the UK and Denmark have secured the right not to join Emu.

Economically, only Luxembourg of the 12 EU members at present meets the tough convergence criteria that the Maastricht treaty sets as a condition for entry to stage 3.

Of the criteria, the targets of low inflation and low

long-term interest rates appear relatively unproblematic for most member states.

Because policy makers generally agree that it would be folly to return to the old ERM narrow bands following the experiences of 1992 and 1993, it is also possible that EU states will opt for a generous interpretation of the requirement for exchange rate stability before joining Emu. The condition that entrants to Emu should have stable exchange rates within the "normal bands" of the ERM for two years prior to joining could be construed to cover stability within the present 15 per cent bands.

But even though the Treaty allows some flexibility, the requirement that the EU states control their fiscal deficits and overall debt looks daunting.

Under the criteria, a country is supposed not to become an Emu member if its fiscal deficit exceeds 3 per cent of gross domestic product or its stock of government debt is more than 60 per cent of GDP. The latest Commission forecast, published last month, suggested that only three countries - Ireland, Luxembourg and Germany - would meet the deficit rule by the middle of the decade. At present, a majority of EU members exceed the debt guideline with

four countries having stocks of debt that are more than 50 per cent in excess of the Maastricht limit. Belgium and Italy, two members of the original EEC, have debt to GDP ratios of 138 per cent and 116 per cent respectively while Greece and Ireland have debt of 114 per cent and 93 per cent of GDP.

Henning Christophersen, the commissioner for economic and monetary affairs, has predicted that during 1997 a majority of present EU members should fulfil the criteria "with a return to normal growth".

But given the EU's relatively high real interest rates and typically moderate growth rates, it is hard to imagine Belgium, Italy, Greece and Ireland ever being able to meet the 60 per cent debt to GDP ratio. Meanwhile, senior members of the Bundesbank central council and the German constitutional court have taken public positions against any weakening of the debt and deficit criteria to ease entry to Emu for member states.

So far, the political will of the "hard core" of EU members to move towards Emu has been remarkably strong. The project, too, is better anchored than previous plans for a single currency and central bank because the Maastricht process has the backing of a treaty.

But there have been signs this year that tight EU integration is losing support among electors in several countries including France and Germany.

Much will depend on the lessons, if any, that policy makers draw from this month's elections for the European parliament and the outcome of the elections for the German national parliament in October and French presidential elections in early 1995.

When the EU member states convene a planned inter-governmental conference in 1996 to discuss the progress being made towards Emu, improved economic conditions in continental Europe could give the project a fair wind.

But the big decisions on whether Europe gets a single currency and central bank for its next millennium will depend on politics.

Understanding of the crucial importance of a sound currency to the success of economic reforms has grown rapidly among economic policy-makers in the former communist world over the past 18 months.

The latest converts have been among the former practitioners of the planned economy who now govern Russia. "A strong rouble is the indispensable condition for the revival of the Russian economy," Victor Chernomyrdin, the Russian prime minister, recently told FT readers in a lengthy article which stressed his government's commitment to market reforms, albeit tailored to the specific and extraordinary circumstances of a giant country whose inherited distortions are also on an epic scale.

The attention of Russia, largest of the former communist states, has been attracted partly by the successful creation of independent national currencies in several of the new states released from Soviet control over the past five years. Three currencies in particular stand out like beacons in the monetary haze left behind by the collapse of the Soviet Union and the disappearance of the transferable rouble. These paragons of stability, all well launched on the path to full convertibility, are the Czech crown, the Estonian kroon and the Slovene tolar.

In each case the countries concerned were the most western and most developed parts of the former Soviet bloc, or of former Yugoslavia in the Slovene example, and enjoyed specific advantages. But all three share a strong political commitment to sound money as the basis for a rational economy and thriving trade.

The Czech crown has been remarkably stable against the dollar and other hard currencies since 1991. With capital inflows of \$1.4bn last year, balanced budgets and low foreign debt the crown is being groomed for full convertibility by 1995. The Estonian kroon, which is umbilically linked to the D-Mark, is managed on a currency board basis by the

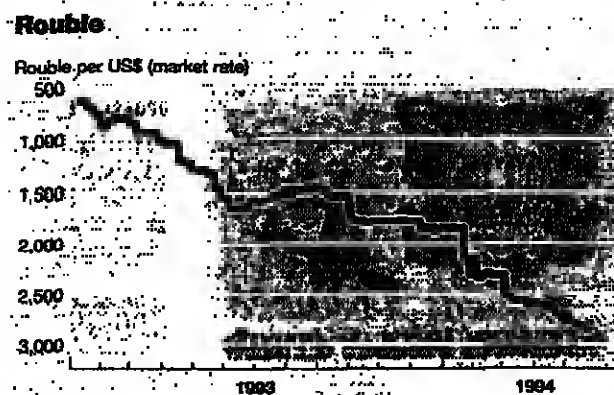
Continued from page 2

is true in respect of the US dollar - and in Europe where the D-Mark has in the medium and long-term staged a dramatic appreciation against other currencies.

Despite doubts, the D-Mark

The former communist countries

Beacons in the monetary haze



central bank which recently pledged to keep the currency fixed at eight kroons to the D-Mark until at least the turn of the century. The Slovene tolar is similarly backed by steadily rising hard currency reserves now that Slovenia no longer has to subsidise the rest of Yugoslavia.

The importance of a sound currency was first underlined by the architects of the Polish stabilisation programme in 1990. Their reforms made the Polish zloty internally convertible and managed to halt hyperinflation. Heavily undervalued at the start of monetary reform, the zloty steadily appreciated for 18 months until the first of a series of devaluations. The currency was last formally devalued in August last year by 8 per cent but regularly loses value by 1.6 per cent a month against a trade-weighted basket of currencies. This "crawling peg" devaluation is needed to compensate for inflation which, although falling, hovers around 30 per cent annually.

Hungary, which inherited

the largest per capita foreign debt in the region, has also made recourse to forint devaluation to maintain the competitiveness of exports but has managed to attract foreign investment which has allowed a strong growth of reserves despite a worrying rise in the current account deficit in recent months.

With their shift in trade to western markets and commitment to continuing market reforms and privatisation, however, the economies and currencies of central Europe are on track to becoming "normal" by the end of the decade. They are being followed, with a time lag, by Albania, Romania and Bulgaria. In recent months the Romanian central bank has created the conditions for internal convertibility of the Romanian lei by raising domestic interest rates and taking other measures to close the gap between official and black market exchange rates. The Bulgarian lev by contrast came under pressure towards the end of last year as a reflection of higher than expected

inflation and declining hard currency reserves.

The picture is much more complex in the states of the former Soviet Union. The disintegration of the rouble zone, originally opposed by Moscow and the IMF, was the logical consequence of the emergence of new states. It has led to the emergence of a plethora of new currencies such as the Kyrgyz som and the Kazakh tenge alongside slightly longer established currencies such as the Ukrainian karbovanets. All the former Soviet currencies are traded on the Moscow Interbank Currency Exchange while three, the karbovanets, the tenge and the Belorussian accounting rouble are also traded on the central Moscow stock exchange.

The currencies of the former Soviet Baltic states, led by the Estonian kroon, are in a class of their own with both the Latvian lats and the Lithuanian litas moving to modified forms of currency board management. But the fate of most other post-Soviet currencies accurately reflects the lack of consistent reform and the high inflation resulting from loose monetary policies.

Some, like the Armenian dram, the Azerbaijani manat and the Georgian coupon, have been even further devalued by war and civil strife. Faced with hyperinflation and inconvertible currencies traded in such countries has been largely reduced to smuggling and barter and those with access to hard currencies have become the new rich.

If Mr Chernomyrdin's sound money does lead to tough restrictions on government subsidies to hard-pressed military plants and collectivised agriculture and adherence to lower inflation targets, the Russian rouble could strengthen after its long decline. After all, the rouble is backed by the enormous natural resources of a Russia which is no longer obliged to subsidise the less developed parts of the former Soviet empire.

Anthony Robinson

Anchor still intact

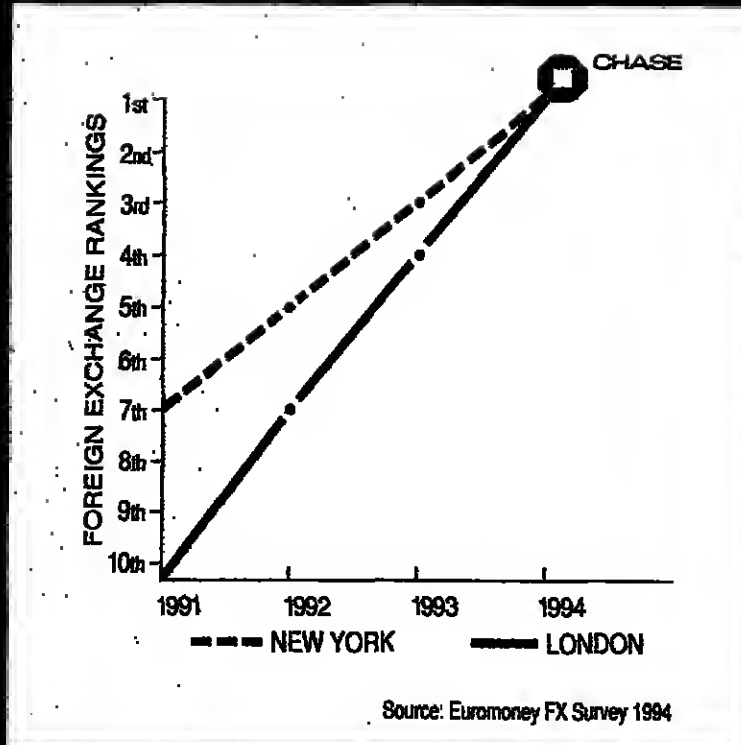
has preserved its role as the "anchor currency" for Europe and the currencies belonging to the slumped-down European exchange rate mechanism.

The appreciation of the

D-Mark against certain European currencies since the end of 1991 (up 29 per cent against Spanish peseta, 27 per cent versus the Italian lire and 14 per cent against the pound) has

worsened the competitive position of German industry - but the corrective in industry's favour will come not via a depreciation in the nominal value of the D-Mark. Germany will strive to regain its competitiveness through an improvement in labour costs.

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Source: Euromoney FX Survey 1994

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CHASE MANHATTAN
PROFIT FROM THE EXPERIENCE

FOREIGN EXCHANGE 4

After the rather giddy romance between investors and exotic currencies in 1993, the first quarter of 1994 has proved to be a chastening experience. The attraction lingers, but investors are now wary and more mature than they were only six months ago.

Last year interest in exotics, particularly in south-east Asia, soared on the back of the emerging markets story. The motor for this growth was the internationalisation of US pension and mutual funds, partly a secular trend, but also a function of the search for higher yields at a time when US interest rates were lower and domestic equities expensive.

Two events in the first quarter reinforced to spoil the story. One was the carnage in international bond markets. The liquidity pressures this generated - for example, the need to raise cash against losses suffered in European bond markets - spilled over into selling pressure elsewhere. Unhappily, as investors were to discover, exotic currencies are not

so-called for nothing, and selling out of a currency was not as easy as some assumed.

Jon Bowen, head of the exotics desk at Midland Global Markets, comments: "People couldn't work out why they could enter the market over five days, but not exit in one."

Perhaps fittingly, the second event involved Bank Negara, the Malaysian central bank. Ironically, given the bank's reputation until recently as one of the foremost speculators in world currency markets, it decided to step in to curb the influence of speculators on the Malaysian ringgit. The effect of Negara's intervention was to cause the ringgit to fall, between Christmas and New Year, by more than 5 per cent against a basket of currencies, inflicting heavy losses on many investors.

The discovery, says one broker, "that the central bank could call a stop and change the rules, came as a big shock to a lot of people". Negara, he says, was "the big stick that taught people these currencies are not what you are used to. You can't just drive them

Philip Gawith checks the amount of interest in exotic currencies in 1994

Rude awakening for investors

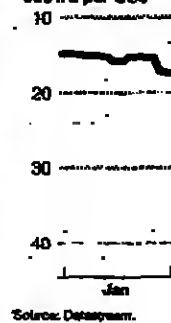
around with flows of money."

For US fund managers in particular, the newest kids on the block, and many naive in the ways of the developing world, these events were a rude awakening. Mr Bowen notes that the Negara episode has had a "noticeable impact on trading", particularly in the Thai baht and the Indonesian rupiah. He says turnover in the five leading Asian currencies - the Hong Kong dollar, Malaysian ringgit, Thai baht, Indonesian rupiah and Singaporean dollar - has, if anything, shrunk in the first half of 1994.

Negara, of course, is not alone in the hands-on management of its currency. Singapore is also a country which does not want its currency internationalised, in the sense of allowing the free market to determine the rate. Exotics, of course, mean

Turkish Lira

'000 TL per US\$



Source: DataStream

more than south-east Asia alone. Indeed, it encompasses any currency beyond the dollar, yen and those of western Europe. The other main exotic blocs are Latin America, with eastern Europe also an emerging area. Investors in these and

other areas also come armed with a healthy stock of cautionary tales.

An obvious recent example concerns the Turkish lira, where concern about government economic policies caused the currency to fall by more

than 50 per cent against the dollar during the first quarter.

Latin America remains the almost exclusive preserve of US banks, which have something of a "backyard" perspective on the region. Trade is handled mostly from New York. Volumes, however, are still tiny compared to Asia.

Albert Maasland, managing director at Chase Manhattan in London, says eastern Europe is probably on a par with Latin America, but business is largely one-way - money going into the currency for local investment. "We can buy the local currency, but can't sell it for foreign currency. Often this can only be done through a local bank." He adds: "We see lots of opportunities there, but they are years behind the Asian market."

The problem south-east Asian countries have faced is

that the clamour to invest has caused their currencies to appreciate. This obviously affects export competitiveness, and countries such as Singapore and Malaysia, which have long-term economic development plans, do not like outsiders coming along and upsetting the environment.

Notwithstanding recent tribulations, for those who know the market - Chase, Standard Chartered, Barclays, Midland, Natwest and Citibank are the main players in London - it remains an exciting prospect. Mr Maasland says they continue to see "dramatic growth in trading, especially in Asian currencies". He estimates that trading activity in the five Asian currencies rose 50-100 per cent year on year.

"In a number of them we will quite regularly see \$50m-\$100m transactions, which was not the case two or three years ago," says Mr Maasland.

It is not only a case of greater volumes. There is also more use of foreign exchange derivatives, though immature domestic capital markets still act as a constraint on trading.

Investment into the region is likely in future to be more cautious. "The trend is still there, but the problem was that it was a fashion," says Mr Bowen. "We've been through the boom times, now times are quieter. I do think we will see it grow again, but not at the rate of last year for a while."

Until liquidity in some of the markets improves, investors are likely to limit the size of their deals. Liquidity, in turn, will improve as deregulation progresses.

As David Clark, treasurer Europe at HSBC, notes: "Deregulation is the friend of the foreign exchange market - it encourages people to operate across borders." The other side of this coin, however, is politics and as Mr Clark observes: "Politics still plays a bigger part in foreign exchange than economics does."

As the story of the yen in 1994 shows, you do not have to go to developing countries to discover this truth. But it is especially true with exotic currencies in the developing world, where politics still has the upper hand over markets.

The world has now been living for 21 years with a monetary system dominated by floating exchange rates. But there continues to be a yearning among some policy makers, active and retired, for more order, reminiscent of the currency stability that existed under the post-war Bretton Woods system of fixed exchange rates.

Despite all the problems suffered by members of the European exchange rate mechanism in 1992 and 1993, finance ministers from continental Europe have put greater exchange rate stability back on the international monetary agenda.

Announcing this step after the spring meeting of the policy-making Interim Committee of the International Monetary Fund, Philippe Maystadt, the Belgian finance minister and committee chairman, said the Fund's executive board had been asked to study, and report back by October, "possible ways to introduce a greater degree of discipline in the present exchange rate system".

Around the same time, Helmut Schmidt, the distinguished former chancellor of Germany, called for Franco-German co-operation to restore orderly

currency relationships for Europe against the dollar and yen "that were lost at the beginning of the 1970s".

Other eminent former policy makers are beavering away in a grandly named Bretton Woods Commission which is due to report next month on the 50th anniversary of the Bretton Woods agreement. Their objective is to "formulate and agree on proposals for the reform of the international monetary system, the International Monetary Fund and World Bank which will help set their course as the 21st century approaches".

At first sight there is much merit in the goal of greater exchange rate stability. More fixed exchange rates are of obvious benefit to international travellers and businesses that import and export. In spite of sophisticated hedging techniques, it is likely that exchange rate volatility hinders international trade and investment. Long-term misalignments, such as the big appreciation of the US dollar in the early 1980s, distort investment decisions and can foster protectionism.

Moreover, with hindsight, the period of fixed exchange

Peter Norman looks at the pressures for greater stability in currencies

Quest for order continues

rates in the industrialised world that followed the second world war looks like a golden age. Growth was faster than it has been since the collapse of Bretton Woods in 1973 and the industrial countries, which now support a 35m-strong army of unemployed, could boast of full employment in the 1950s and 1960s.

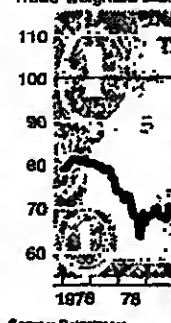
But it was also an age of strict controls over capital movements in which comparatively few rich countries called the shots. Changes in the world economy since the early 1970s make it very difficult to imagine a successful return to Bretton Woods.

When the Group of Seven leading industrial countries tried to stabilise their exchange rates through the Louvre Accord of February 1987, some, notably Japan and Britain, found that their domestic economic stability was undermined.

In Japan's case an exces-

Dollar index

Trade-weighted index (1985=100)



Source: DataStream

Long-term misalignments, such as the big appreciation of the US dollar in the early 1980s, distort investment decisions and can foster protectionism

sively easy monetary policy, that was intended to prevent appreciation of the yen, fuelled the now notorious "bubble economy". In Britain, Chancellor Nigel Lawson's struggle to prevent sterling appreciating

against the D-Mark hindered a much needed tightening of monetary policy to curb a growing boom. The result was a rapid increase in UK inflation, followed eventually by soaring interest rates and a

very damaging recession. More recently, massive free-flowing capital movements triggered crises in the European Monetary System in 1992 and 1993.

After such experiences, it is not surprising that there are no official moves afoot to replace the present "non-system" of floating exchange rates with a more orderly system of fixed parities.

For starters, the adoption of narrow fluctuation bands akin to the Bretton Woods system of near stable exchange rates would require countries to reach agreement on appropriate parities. This, says Morris Goldstein, deputy head of the IMF's research department, "would be no easy task". Still more problematic would be the subordination of monetary policy to exchange rate goals, that system were to survive.

But if fixed exchange rates are not the route to greater

discipline in the international monetary system, what is?

An indication came in the response of Michel Camdessus, the IMF managing director, to Mr Maystadt's announcement in April. Mr Camdessus said his "reactive reaction" was that there was more prospect of addressing exchange rate instability at the world level through strengthened surveillance and co-ordination of economic policies than through co-ordinated intervention in the foreign exchange markets.

In other words, the best way to exchange rate stability begins at home. This maxim is likely to be endorsed by the Bretton Woods Commission, when it reports in July, and the IMF executive board when it submits its findings to the Interim Committee's next meeting in Madrid in October.

It would be surprising if both groups did not lay great stress on the need for convergence of inflation rates, greater savings and domestic investment and determined action to reduce fiscal deficits as the path to greater currency stability.

It is unclear, however, whether the two bodies will go so far as to suggest that such domestic-oriented approaches

could one day lead to "target zones" in which the monetary authorities would keep the principal trading currencies - the dollar, D-Mark and yen - within relatively narrow ranges of each other.

Last month Mr Camdessus expressed his doubts. As well as a high degree of convergence and increased attention to macroeconomic co-ordination, achieving exchange rate stability through target zones would require an "exceptionally high degree of collective determination... given the high cost that may have to be paid for this in terms of growth and employment in the short term."

Such collective determination does not exist. It was "not accepted to the same degree in the three major currency areas of the world," he said.

Mr Goldstein is doubtless right when he says that a fundamental reform of the international monetary system is "not on the near-term horizon".

But Mr Maystadt's initiative in the April Interim Committee and the meetings of men such as former chancellor Helmut Schmidt show it is a subject that will not go away.

After the halcyon years of 1992/3 when bull wars do betis in financial assets and one way bets in the ERM swelled foreign exchange trading profits, 1994 has proved to be more challenging.

In contrast to the earlier period when the ERM crises saw currency markets dominate the headlines, the recent ructions in financial asset markets did not spill over directly into currencies. But the overall nervousness, as investors contemplate whether a bear market is under way, has not helped foreign exchange trading rooms which depend on cross-border deals for their volumes.

Indeed, there is a sense in which 1994 has witnessed the revenge of the central banks. In 1992/3, many of them were humbled by speculators who profited handsomely at the expense of taxpayers. This time round it has been the "speculators" who have lost heavily, with just about everyone appearing to have got the dollar wrong against the yen.

Up-to-date national and global foreign exchange trading figures are not available, but the overall picture is one of volumes having returned to roughly the levels before the ERM shake-up (though some claim volumes are as high as ever).

A consultant to a leading European bank active in foreign exchange argues that the total volume of foreign exchange business in London, easily the largest market, grew by 10 per cent last year. Although there have been periods of considerable intra-day volatility, the general complaint is that trading has been trendless, with foreign exchanges taking their tune from other asset markets.

The one glaring exception, of course, has been the steady downward path of the dollar, with most investors on the wrong side of the trend.

Profit trends are also not easy to determine. UK banks do not report on a quarterly basis, while US banks tend not to disaggregate their trading revenues.

In general, though, those banks which rely more on an established client base than on own-account trading are likely to have done better. And as the first quarter results of leading US banks like J.P. Morgan, Bankers Trust and Citicorp made clear, trading revenues were sharply lower.



Julian Simmonds: hopes to standardise dealing rooms

Within these figures, foreign exchange revenues probably fell proportionally less than bond and equity revenues. Banks appear to have lost most of their money during the first quarter in emerging market securities and European bonds.

The two bits of hard information about 1994 trading come from Chase and Citibank which show a separate foreign exchange revenue figure. Looking at the income line, Citibank's revenues fell to \$68m from \$156m in the fourth quarter and \$240m a year ago. At Chase, the comparable figures were \$85m, compared to

This time around, speculators have lost heavily, writes Philip Gawith

Revenge of the central banks

\$75m in the fourth quarter and \$103m in the first quarter of 1993.

Citibank's figures form the basis for a widely-held market view that the industry leader performed worse than expected. But Citibank says this figure is distorted by accounting vagaries and notes that if its revenues are broken down by trading activity, foreign exchange is flat at \$200m compared to a year previously.

With proprietary profits more difficult in a trendless market, the focus has switched sharply back towards the customer. This has helped a bank such as Midland, a distribution-led outfit that functions more as a market-maker than as a position taker, relying on a core client base to generate business.

Roh Loewy, head of foreign exchange at Midland Global Markets, says that he is still seeing growth in both the funds and the corporate side of the business. Foreign exchange earnings, he says, were also better in the first quarter of 1994 than the same period in 1993.

Chris Deuters, head of foreign exchange at Lehman Brothers, says although the first quarter of 1994 was a difficult one, the aim remains the same: to use foreign exchange as a separate asset and investment class, with a premium on the relationship with the customer. It is a case, he says, of "back to basics", of getting close to the client to understand his needs.

With "central banks no longer in the middle, dishing out taxpayers' money", says Mr Deuters, there is a greater premium on relationships and

good traders. Getting close to the customer is hardly novel, but "it's not the originality of the idea that differentiates the bank. It's the execution."

Another key challenge he stresses is the globalisation of the business. "Clients' risk doesn't end at 5pm, so you have to be global." Putting this operation together, without having multiple trading rooms in the same time zone, is an important task.

For Julian Simmonds, man-

aging director foreign exchange and money markets, Europe at Citibank, a key difference between 1994 and 1993 is the shift in emphasis between costs and revenues.

Whereas business was so hectic during 1992/3 that managing the huge turnovers was a full-time activity, the quieter period offers opportunities to look at costs.

It also allows greater time for strategic thinking, such as how to embrace the challenge

of emerging markets.

In terms of costs, Citibank is looking at whether it can tidy up its operations on the process and technology side. It has now centralised the back-office function for clearing its European business in London. Mr Simmonds hopes also to standardise dealing rooms. "I've got to believe that there should be much more commonality among our systems. The days are gone where every branch can have 100 per cent

of what it wants."

He is quick to add, however, that "this is not a revolution. It's an evolutionary process. Ask the questions, and then try and change things slowly."

Mr Simmonds is also concerned about the "effervescent" state of the labour market. "Packages are being offered as rich as at the height of the boom. I find that strange. Market participants have failed to recognise that things are changing. People need to become more realistic about what is attainable."

Another important challenge which all businesses face is the increasing integration of foreign exchange, capital market and derivative functions. "Customers require solutions

that cut across the products," says Mr Simmonds.

He adds: "You have to think more broadly. Quieter times need not signal lower profits, as Chase's first quarter performance shows."

David Clark, treasurer Europe at HSBC, adds: "You don't need a lot of big moves to make money. Foreign exchange dealers can live quite easily with the volatility we have."

What about the future? Mr Simmonds comments: "Foreign exchange is in transition. I suspect further disappointment for those who are gearing up to face the last two years again. I don't think any of us have had to manage against this backdrop before."

Philip Gawith discusses the progress made by electronic brokerage

Technology on the march



Screen test: electronic brokerage is slowly becoming part of the foreign exchange landscape

community. Brokerage still plays an important part in currency dealing. At the time EBS was conceived, and electronic brokerage is too immature for these figures to have changed substantially, roughly 60 per cent of deals in the currency market were done by traders in two banks - or counterparties - who call each other up directly. The remainder were done by brokers who bring together buyers and sellers.

Figures released by EBS suggest it is making solid progress. It is now starting to achieve consistently more than 2,000 trades a day. For the week ended May 6, most trades (59 per cent) were in the \$/DM cross, with other good performers being DM/Swiss franc and DM/French franc.

The number of users has also increased to 185 bank branches in 18 cities. Since January, 48 new counterparties have been added, and only 10 of these are branches of the 13 EBS partnership banks.

EBS is keen to resist the idea that it exists only because it can attract captive business from its shareholders. It notes that partner banks now represent less than 30 per cent of total users on the system. Reuters, meanwhile, announced recently that it had passed the 5,000 matches/day mark on the 2000-2 system. It is found in about 550 bank branches, and Portugal will soon become the 22nd country where 2000-2 systems are used.

Minex has a strong position in Asia and claims to transact 6 per cent of the daily broker turnover in dollar/yen in Tokyo.

The voice broking community claims that the influence of electronic broking has so far been negligible. Indeed, one leading broker says that in the case of the D-Mark/franc pair, "we have found since they established themselves, our turnover has gone up as well". He concedes that the effect would be different in a more

established currency pair, such as dollar/D-Mark.

Although electronic brokerage systems claim that they can cut brokerage costs, brokers argue that currency dealers are more concerned with generating turnover than controlling overheads. Brokers also believe the human factor should not be underestimated.

"A computer can't take you out for a drink after work," quips one. Some critics have wondered whether bank dealers would use EBS were it not for the fact that they have a stake in the system. Users, however, are adamant this is not the case. Tim Broome, assistant director at Barclays global foreign exchange, comments: "EBS on our dealing floor currently stands on its own merits."

Mr Bartko is confident that EBS is succeeding in terms of the key criterion that determines the success of a broker: the liquidity it generates. This, in turn, is a function of having

prices to quote, to a critical mass of counterparties. He argues that EBS has generated liquidity which people are prepared to pay to have access to. This is particularly so in the dollar/D-Mark, D-Mark/Swiss franc and D-Mark/French franc crosses. EBS has been less successful in generating liquidity in the other five currency pairs it offers. Mr Bartko says he is at a loss to explain why some currency pairs have succeeded better than others.

Traders are generally quite complimentary about EBS, with two caveats. First, younger traders tend to be more receptive to the new technology than older ones. Indeed, many in the market cite the cultural challenge of asking people to change deep-seated work habits as the most serious challenge facing electronic broking.

Second, EBS is used more in quiet markets. In heavy trading, the inclination is still to revert to habit and trade on established systems, or with voice brokers.

One early division between EBS and Reuters is that the former, understandably given its backers, has a dominant position among the large banks in the interbank market, while Reuters has a strong position among their counterparties, especially the retail market banks. "They have got the market-makers and we have got the hitters," says Bob Shillington, international marketing manager at Reuters.

Naturally enough, both EBS and Reuters claim that they are making inroads on the other's market. Certainly, there are examples of banks who use more than one of the electronic systems.

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FOREIGN EXCHANGE 6

Philip Gawith discusses the role of hedge funds

'Cowboys' of the markets

At the beginning of 1994, there were at least two certainties in the eyes of most global asset managers: the US dollar and European bond markets, had to rise.

It is a matter of history, of course, that events turned out otherwise, with most fund managers reaching the end of the first quarter nursing battered balance sheets and wounded egos.

In the search for scapegoats, the finger was quickly pointed at the hedge funds - large pools of speculative capital, whose predatory trading instincts and penchant for highly leveraged trade has conferred on them a reputation as the cowboys of modern financial markets.

Figures about the size of the hedge fund industry are notoriously vague, mainly because many hedge funds are organised so as to avoid the application of most securities laws, and hence exist in something of a regulatory black hole.

Republic New York Securities, a firm that tracks hedge fund activities, estimates that there are more than 800 hedge funds representing \$35bn-\$40bn capital. These estimates were largely corroborated by recent testimony from Barbara Pedersen Holm, acting chairman of the Commodity Futures Trading Commission (CFTC), at hearings on hedge fund activities held in the US by the House Banking Committee. The CFTC regulates US commodity futures and options markets and has information on most hedge funds of any size that use these markets. CFTC data indicates a total of \$31.5bn under management of "self-declared" hedge funds, and \$48bn under management by all listed investment partnerships combined.

These figures need to be kept in context. The total net value of the regulated mutual fund industry in the US was \$2,100bn at the end of 1993, with at least 10 mutual funds having a net asset value greater than \$9bn. Other US institutional investors had, at the end of 1993, \$6,500bn in assets under management.

Estimates by John LaWare, a governor of the US Federal Reserve, are that perhaps a dozen hedge funds have a net asset value greater than \$1bn with another 25 having capital between \$100m and \$1bn. George Soros's group is believed to be the largest with about \$9bn of capital.

How active are hedge funds on foreign exchanges? Testifying before the House banking committee, Mr Soros provided the following appraisal: using 1992 data from the Bank for International Settlements, showing global net turnover of the nine largest foreign exchange markets to be about \$345bn per day, "all hedge funds in the aggregate control at most 1/10th (or 0.008 per cent) of the daily global trading volume in the foreign exchange markets".

This is based on the assumption that Soros Fund Management (SFM), on an average trading day in foreign exchange, might engage in transactions with a total value of around \$500m; and that SFM constitutes about 15 per cent of the money invested in hedge funds.

Against this rather benign view of hedge funds, two points must be made. First, their ability to leverage their funds, and willingness to take big bets, means that some of their trades can be very large indeed. Also, despite their self-styled contrarian instincts, hedge funds do often end up trading as a pack. In such cases their ability to move markets is beyond dispute.

But Mr Soros does have support for his view that the influence of hedge funds can be exaggerated. The CFTC, for example, found that the more prominent hedge funds "have not contributed to volatility in CFTC regulated markets". The CFTC examined its records of hedge fund activity during February and March, when financial markets experienced considerable volatility, and found it "not significant".

More specifically, on February 14, when the US dollar plunged to a six-month low against the yen, hedge funds "were not active participants in yen futures on

this day, none appearing among the 30 largest net traders".

Arguably as important a development as hedge funds has been the mushrooming of proprietary trading activities by leading banks - that is, trading done on their own account where capital is at risk.

Henry Gonzalez, chairman of the House banking committee, noted recently that bank trading activities were "growing at an uncontrolled, rapid pace. At the top 10 bank holding companies, trading account assets have increased about 400 per cent in the past four years and now top \$140bn".

Insofar as regulators are concerned with the threat of financial instability, it may well be that they will in future concern themselves as much with banks' proprietary trading, and the activities of institutional investors, as with hedge funds. Mr Soros argues that "trend-following behaviour" is necessary to cause a market crash, and that this is most likely to come from institutional investors in general, and mutual funds in particular, aggravated by hedging practices associated with derivative instruments.

Large hedge funds like to argue that their contrarian instincts actually make them a smoothing influence in financial markets. This view also enjoys support from regulators. Indeed, the Fed's Mr LaWare told the House committee that "the activities of hedge funds add depth and liquidity to financial markets and can be stabilising influences. It would be wrong to single out hedge funds as being responsible for moving global prices of financial assets or as being a major source of risk in financial markets".

It may be that markets have already done the regulators' work for them. Indeed, if reports about the extent of hedge fund and proprietary trading losses in the first quarter are to be believed, then a pruning process is already well under way. Hedge funds and proprietary traders have still to prove themselves in bear markets.

Richard Desmond, group treasurer of BAT Industries, the tobacco and insurance group, sees a lot of bank presentations in his London office.

When, during a presentation earlier this year, one banker airily talked about "the client's views" on foreign exchange movements, Mr Desmond interrupted him. "We don't have views, we have exposures," he said. "And if we don't have an exposure, we don't have a view."

That epitomises the down-to-earth conservative approach of Mr Desmond, who lectures on foreign exchange management and was a former president of the Association of Corporate Treasurers.

Mr Desmond points out that, at BAT, which had sales of £13bn last year, "the size of the organisation is large in relation to the size of the foreign exchange risks". This, he believes, leads to a couple of advantages in risk management. "We don't have to keep pressing for the last farthing in savings. And we can often take more conservative risk management approaches."

The treasury department may be centred in the UK but Mr Desmond has only a small team of five professionals at headquarters. Nevertheless, he claims that "the quality of our treasury staff is as good as any in London". His team both deals and devises the foreign

Few activities conjure up a dull stereotype as readily as the chartist, whose dogged study of the past as a guide to the future can appear an intellectually arid exercise.

Few men, however, conformed this stereotype more thoroughly than Brian Marber, doyen of the trade. Marber, a man of strong views, an hour or two in his company is enough to make anyone turn to charts.

Unfortunately, Mr Marber is not quite the marketing gift he first appears. Indeed, he has a somewhat ambiguous relationship with his calling. "I told the secretary of the Society of Technical Analysts that it was not in the interests of the society to promote itself. We would do ourselves more good if we go around pretending to be weirdos. The efficiency of technical analysis is in inverse proportion to its acceptance," he says.

Mr Marber did not receive his first fee-paying client until June 1979, when he success-

Profile: RICHARD DESMOND

Down-to-earth treasurer

exchange strategies.

The group reports to shareholders in sterling but is a worldwide operation, with costs and revenues in many different currencies. "We tend to be long dollars, yen and Deutschmarks," says Mr Desmond. Exposures across the group are netted so that a subsidiary which has, for example, dollar costs can obtain dollars from the head office at a budget rate.

As the BAT treasurer points out, there are four potential elements of a company's foreign exchange risk: the third party transactions of operating groups; non-remitted profits of subsidiaries; dividends and other financial flows to the core; and foreign currency assets.

On third party transactions, Mr Desmond says that "every subsidiary should be managing its foreign exchange exposure" although he points out that most subsidiaries' exposures should not be large, since they

have local cost factors.

The subsidiaries are not without guidance on how they should handle their foreign exchange dealings. BAT runs a course in which all financial staff are trained in the style of the group. The head office also has a range of policies which cover what the subsidiaries can do, and substantial transactions have to be approved at the sub-operating group level.

Non-remitted profits, which are being retained by subsidiaries for future growth, are not hedged. They are recorded by the parent company after having been translated at the average exchange rates for the year.

Dividends and other financial flows are managed actively but conservatively, according to Mr Desmond. "When volatility goes up, our strategy gets more conservative; when it goes down, we become slightly more active. If volatility goes down a bit, we use an option strategy. The cost is lower if



Richard Desmond: "we don't have views, we have exposures"

the volatility is lower."

For much of the time, BAT makes straightforward transactions in the spot and forward markets, or using stop-loss strategies, with the target of achieving the average exchange rate for the year. However, Mr Desmond says the company is quite prepared to use sophisticated techniques, but on strict conditions. "We take a practical approach," he says. "We don't aggregate risks, we like to retain our flexibility. When we use a product, we make sure we understand the potential outcome."

"Furthermore," he adds,

"before we buy a product, such as a zero cost collar, we will run a programme to see not only what our strategy will achieve but also the cost of unwinding it half-way through."

When it comes to dealing with the exchange risk created by foreign currency assets, Mr Desmond says there are three possibilities.

The first is make it abundantly clear to shareholders that the group has foreign currency assets, which are not hedged, and let them assess the attractions of the shares on that basis.

This approach would mean that all the company's borrowings would be denominated in sterling, the currency in which the results are reported.

The second strategy is to match the debt exactly with the assets in currency terms so that when foreign exchange markets bob up and down, the value of the group's reserves stays the same.

Mr Desmond says BAT uses a third approach. "We are a little bit more sophisticated. We look at the currency ratio of the future cash flows as well as of the assets."

He explains that this means that "when currencies move our debt/equity ratio and interest cover ratio will tend to be stable."

Philip Coggan

Profile: BRIAN MARBER

Top of the chartists

fully predicted that the dollar would drop against the D-Mark. When two years Mr Marber had left his position at the stockbroking firm Simon and Coates - in his last six years on the stock exchange, he had been voted best technical analyst in the City - and Brian Marber and Co. soon followed, being set up in September 1981.

Mr Marber will not discuss the size of his client base, but says it "was originally all corporates - people who were fed up with forecasts from the banks." Initially he called himself a forecaster. "They would not have known what a chart was 15 years ago, and if they had they would have laughed!"

Mr Marber may not enjoy marketing, but he knows a thing or two about advocacy. With the practised skill of one who has many times fought off the sceptics, he sets out his stall:

■ A 1989 Bank of England study shows that 90 per cent of all FX decisions made in the market had some degree of technical analysis in them;

■ 60 per cent thought technical analysis was at least as useful as fundamental analysis;

To those who argue that maybe fundamental analysis is more useful further out, over six to 12 months, Mr Marber replies pungently: "I can tell you that is absolute rubbish." He cites a biannual survey where analysts are asked for their forecasts one year out. Of the 24 surveys he has monitored, in only 10 of those has the mean forecast been correct

on the trend. The figures show, he argues, that fundamental analysts get the trend right about 40 per cent of the time. "Random chance would have it that you would be right 50 per cent of the time, wouldn't it?"

The same Bank study found that technical analysts were right no more than 50 per cent of the time. While Mr Marber concedes that charts will not help in a ranging market, he says "they will never leave you on the wrong side of a trend". Research shows that foreign exchange is the only market to trend, and it does so 58 per cent of the time. "That

is sufficient to make money," he says.

Nothing gives Mr Marber more pleasure than laying into the "fundamentalists". Purchasing power parity? "A load of bullshit. The dollar was undervalued for 10 years in terms of PPP in the 70s. How the hell does that help you make a decision?" Interest rate differentials? "Lex wrote the most arant nonsense recently: if interest rates go up, currencies go up."

He then pulls out a chart of dollar/D-Mark going back a number of years which shows that the currencies followed interest rate trends only -



Brian Marber: a maverick and a man of strong views

Profile: DAVID SHAW

Erring on the side of caution

Sterling's undignified exit from the European exchange rate mechanism (ERM) in September 1992 was the catalyst for Legal and General revising its approach to currency management, says David Shaw, head of strategy.

Sterling's 14-15 per cent decline "brought home to us just how exposed our assets, and by extension our policy holders, had been." He adds that "such events are becoming increasingly common and institutions like L&G need to assess the risks and take appropriate action".

Institutional investors are among the more cautious creatures found on foreign exchanges. So Mr Shaw is quick to stress that the discretion he is allowed by his board and trustees is tightly constrained. At the level of currency selection only two sizes of position are allowed: the minimum position is 2.5 per cent, and this has to be justified by an expected total return on the preferred currency of at least 7.5 per cent.

Five per cent may not sound much, but can add up to large numbers when one considers that L&G has more than \$30bn assets under management, of which about 20 per cent is in non-sterling assets. Across the breadth of UK institutional investors, nearly £250bn is probably invested in non-sterling securities.

Mr Shaw stresses that these

large bets are rare. In 1993 L&G did not take any 5 per cent positions, and only placed one 2.5 per cent position on the dollar, which paid off.

This year has proved tricky. Mr Shaw is in good company when he admits that L&G had a bet on the dollar against the yen, which went wrong. The group was saved from embarrassment by placing a stop-loss order at ¥107.50, which minimised the loss to 2 per cent.

While the 2.5 and 5 per cent limits are very rigid compared to many other currency trading operations, they still represent a considerable change in modus operandi from the situation just two years ago. "The asset allocation view was initially (taken) without any serious assessment of the relative attractiveness of the currencies involved," says Shaw.

Partly this reflected trustees' concern that managers not be seen to be too pro-active in their management of currencies. It was also a function of the relatively low currency volatility since October 1980 when sterling had formally entered the ERM.

Now the group does one-year currency forecasts, roughly consistent with its typical investment time horizon. The focus is on the four main currencies - dollar, D-Mark, yen and sterling - and each month L&G uses fundamental economic analysis to rank the currencies in terms of expected performance. With about 80 per cent of group assets in the UK, the key is the sterling cross with the other three currencies.



David Shaw: discretion allowed by his board is tightly constrained

The degree of discretion in managing currency exposure is an ongoing subject of internal debate. An important concern from a taxation perspective is to be classified as an investor, not a trader - a fine distinction which turns on investment time horizons.

Overall, says Mr Shaw, "there is an increasing willingness on the part of trustees to be more flexible in allowing currency management". There is, however, a job of persuasion to be done. Some trustees are financial ingénues, who need to be persuaded that currency management is not speculation, while others, for example, will feel that selling sterling is in some way unpatriotic.

With trustees more willing, the currency decision is now increasingly separated from the underlying asset decision, says Mr Shaw. "because the economic fundamentals that drive currencies are not the

same set that drive the bond and equity markets". The decisions are taken "separately but simultaneously".

While progress has been made, Mr Shaw is careful to stress that they have not reached the stage where, like hedge funds, proprietary traders or currency funds, they purely take a view on a currency. "What we do is currency management, and it is the currency management of an underlying asset," he stresses.

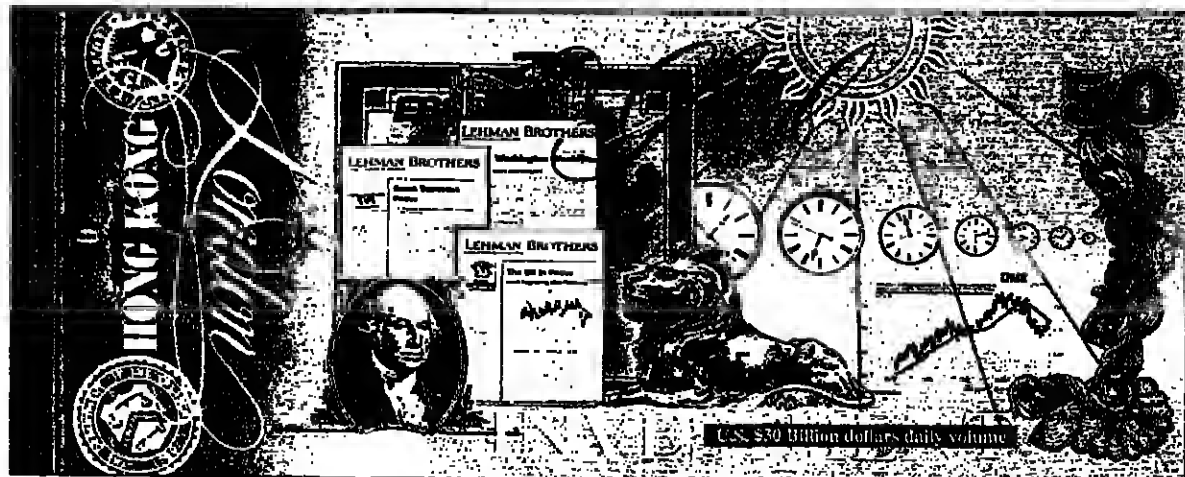
A concern that Mr Shaw expresses is that just as investment managers are mastering currency management, the game seems to be changing. "We've padded up for the village cricket match to find we're playing in the World Series," he quips.

The worry is that the advent of highly leveraged trading, conducted mostly by proprietary traders and hedge funds, may have fundamentally changed that nature of markets in a way which renders the more cautious strategies of institutional investors both anachronistic and inadequate. This concern was heightened by the volatility of financial markets during the first quarter which left many fund managers with red faces.

It is early days yet. The first quarter may be a one-off, in which case it can be ignored. Otherwise, Mr Shaw may find himself having to manage his currency exposure as actively as he manages the underlying assets.

Philip Gawith

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BELGIUM

Thursday June 2 1994

The snows of an economic winter are melting: Page 4

Faster recovery than expected

Political and business leaders are trying to regain their confidence after riding out Belgium's worst recession for 60 years. Lionel Barber reports

Belgium is looking at a brighter future. After one of the most painful recessions since the 1930s, the Kingdom is advancing again much more rapidly than expected.

Economic recovery will bring relief for Belgium's beleaguered political and business classes whose goal over the past 12 months can be summed up in one word: survival.

Like all members of the European Union, Belgium has been buffeted by rising unemployment, intermittent labour unrest and popular disillusionment with politicians, few of whom can aspire to the stature of the immediate post-World War II generation led by Paul-Henri Spaak.

The economic crisis peaked last summer when a wave of speculation threatened to force the fragile coalition government led by Prime Minister

Jean-Luc Dehaene to abandon its policy of shadowing the D-Mark, a move which would have put Belgium's long-standing anti-inflation strategy at risk.

Although siren calls were heard in favour of a UK-style dash for growth through lower interest rates and a devaluation of the currency, the Dehaene government and the Belgian National Bank stood firm. Together they refused to break ranks on interest rates with their partners in France, Germany, the Netherlands and Luxembourg - the informal hard currency club which continues to enjoy the best prospects of forming a European monetary union later in the decade.

Mr Dehaene plunged ahead instead with a "global pact" between government and employers, the most ambitious attempt to curb social spend-

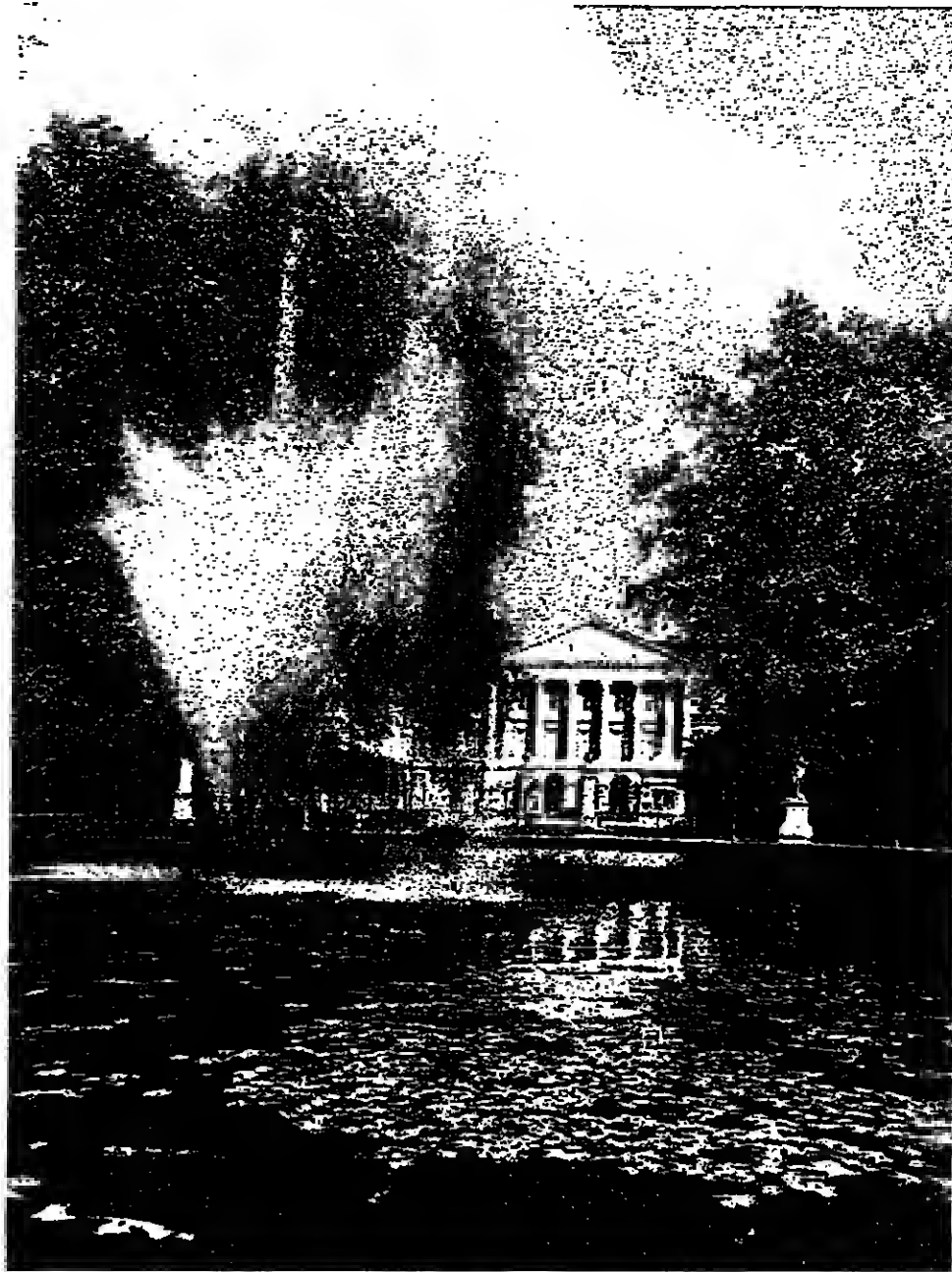
ing since the second world war. True, he failed in the end to win the support of the trades unions, but the lengthy political bargaining which accompanied the plan bought time for the government in the winter, as well as offering the prospect of significant budgetary savings in the medium-term.

Mr Dehaene, who looks like a slimmed-down version of Chancellor Helmut Kohl of Germany, has seen his reputation enhanced as a result of the global pact and his chairmanship of the widely acclaimed Belgian presidency of the European Union which ended last December.

Somewhat to the surprise of the Belgian public, he has been encouraged by France and Germany to put himself forward as a candidate to succeed Mr Jacques Delors as president of the European Commission at the end of the year.

Sitting in his prime ministerial suite in Brussels, Mr Dehaene declines politely to talk about his ambitions to move up the road to the Commission. His biggest indiscretion is a loud roar of laughter in response to suggested cabinet permutations which would allow him to leave his post. Yet he clearly relishes his reputation as the "fixer" or the "plumber" in Belgium, and would not be averse to trying out his skills on a bigger stage.

"Many people thought that, because we were a government with socialists, it [the pact] was not possible. We proved that it was possible," he says. "After a period of uncertainty between August and November [1993], we re-established inter-



Brighter outlook: Palais de Nation, Brussels, seat of the Senate and Chamber of Deputies (Picture: Universal)

national confidence in the Belgian economy, in the Belgian currency, and in the Belgian flag."

The government's resilient response to the summer currency crisis underlines a consensus at the heart of Belgium's complex domestic politics, in which linguistic

and cultural tensions between the French, Flemish and the tiny German minority are contained in a loose federal framework. This consensus rests on an assumption that Belgium's needs are best served by deeper co-operation and integration in Europe.

Though Mr Dehaene says pointedly that the ordinary Belgian's enthusiasm for Europe is not what it was, he still portrays his country as a test-case for tackling the problems of the European Union itself: slow growth, high non-wage costs, high public debt and popular disenchantment with political elites (reinforced

in Belgium by a corruption scandal in Wallonia which has already claimed the scalps of three leading members of the local socialist party).

Belgium's global pact drew inspiration from Mr Delors' White Paper on employment, growth and competitiveness which was endorsed by the 12 heads of EU government at the Brussels summit last December. The government's measures to encourage companies to recruit young people under 25 without paying full employment costs anticipated the White Book's own recommendations; so too, the global pact's goal of holding down the real wage growth to less than the rate of inflation for the next three years.

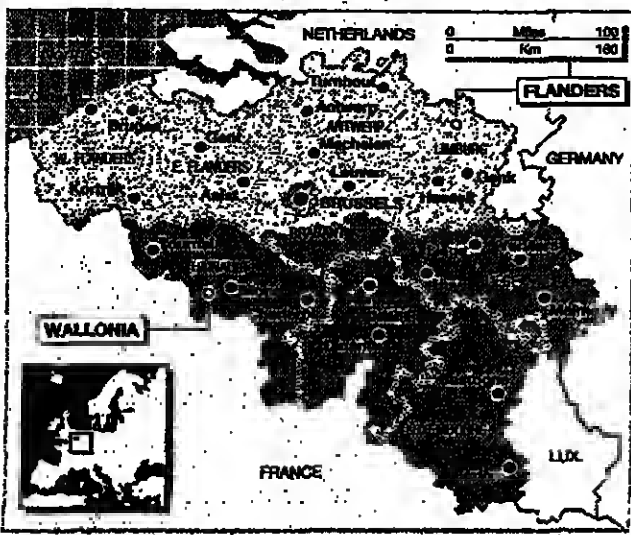
The ultimate prize for Belgium is European monetary union. The government and the central bank are at one in striving towards this goal, believing that in the long term a single European market without a single currency is not workable. Yet it is also clear that the government's huge public debt - built up during the spend-thrift 1970s - makes it difficult for the country to meet the Maastricht treaty's criteria for EMU membership.

Mr Dehaene is convinced that Europe's political leaders will exploit the treaty language in the most flexible way possible to allow EMU to proceed. Yet doubts remain about where to draw the line. If Belgium were welcomed into the monetary union, protests from Spain and Italy seeking reciprocal treatment would surely follow.

Peer pressure inside the EU has helped to steady Belgium's economic performance, but Union membership has also served as an anchor for the Belgians themselves. Without the Union, Belgians would be much more vulnerable to tensions between Wallonia in the South and Flanders in the North, where the Flemish population is becoming increasingly assertive in pressing for greater political and economic autonomy.

Belgium's drive toward greater devolution of power to the regions started almost 25

IN THIS SURVEY
Prospects for a looser state structure; interview with van den Brande of Flanders; heavy industry's travails PAGE 2
The government bond market survives the shake-up; Belgium's growing reputation for haute couture PAGE 3
One of Europe's strongest trade union movements adjusts to a shrinking power base; economy shows signs of a spring recovery; profile of banker Alfons Verplaetse PAGE 4



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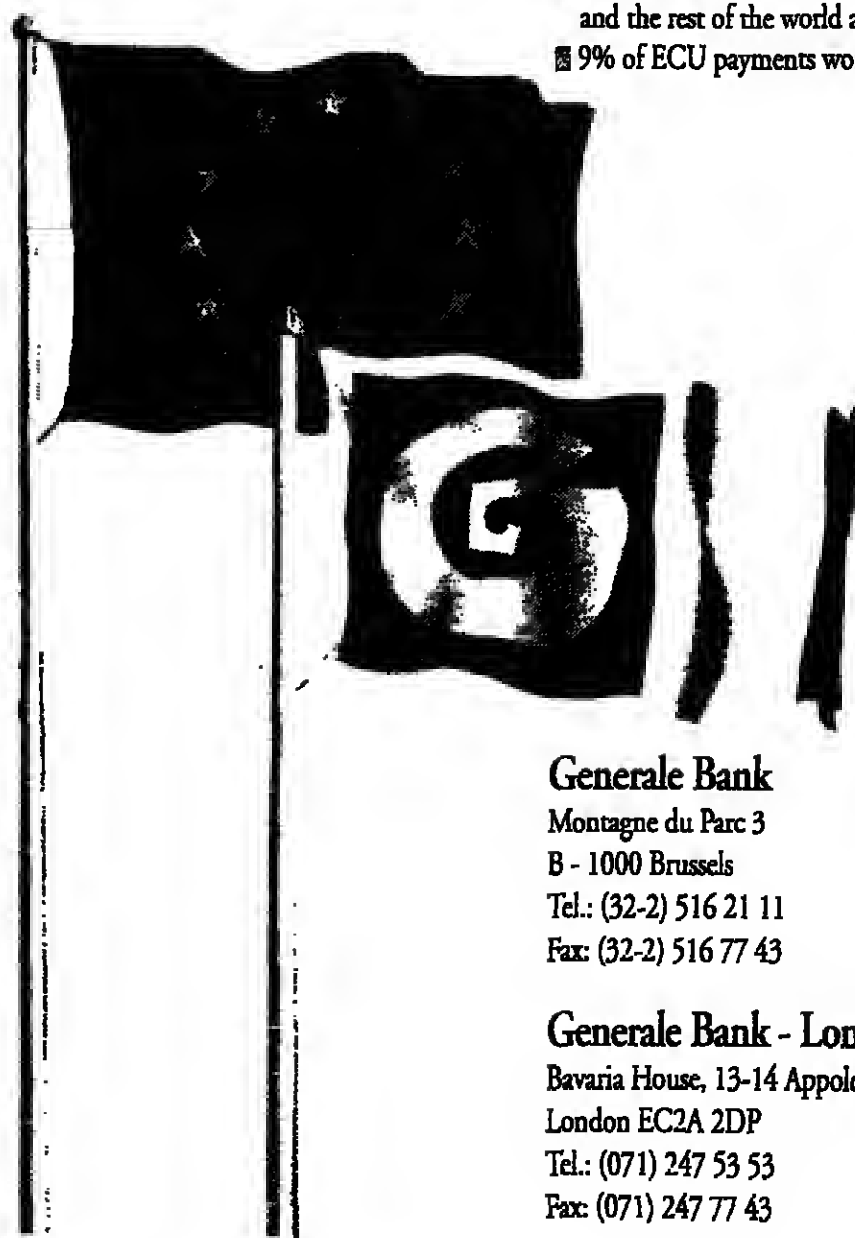
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BELGIUM 2

Pluralist Belgium has loosened its unitary ties in favour of federalism. Emma Tucker asks if it will work

Flemings, Walloons, Germans

Just over a year ago a complex and protracted process reached its conclusion in Belgium. The small country, with a population of barely 10m, completed its change from a highly centralised, unitary state into a federation of regions and language communities.

The country's divisions have many permutations. There are two main cultural communities - the Flemish and the French, plus a smaller German community. These occupy three distinct regions - Flanders, Wallonia and Brussels.

The risk with federalism is

one of duplication and hence inefficiency. As a Walloon government official put it: "There is a danger that we have complicated the set-up so much, that it has become ineffective."

But one year on, the verdict on fully-fledged federalism is so far, so good. Rather than

complicating the process of government, the new system has made it simpler.

"Thirty to forty years of Belgium as a unitary state did not work," says Xavier Mabille, a Belgian political analyst. "There is less risk of doubling now than before."

The process towards federalism began way back in 1970 when the existence of two main cultural communities and three regions was recognised under the constitution. In 1980 the communities were given, in addition to cultural responsibilities, such as language-use and the arts, responsibility for areas that could be dealt with at the "personal" level. This covered policies for the elderly and the handicapped, for example. Meanwhile, regional institutions were given responsibility for areas such as the environment, rural development and the economy.

In 1988, powers for both the communities and the regions were enlarged to include education, public works, transport, science policy and oversight of the communes and provinces within the regions. The communities and regions were also given responsibility for their own finances.

Last year, the transition was completed. Under an agreement known as the St Michael accords, Flanders, Wallonia and Brussels were granted their own, directly elected parliaments. The parliamentary bodies of the communities



Jean-Luc Dehaene, prime minister of a polyglot country

were also to be elected directly. Significantly, powers over foreign trade, agriculture, scientific policy and some aspects of international relations were transferred to the regions and the language communities.

Since last year many of the fears of those who distrusted federalism have been allayed. "I would have preferred not to live in a Federal State, but in a regional one," says Mr Charles Picqué, president of

the Brussels region. "But we have to live with it, and organise our structures around it."

Of all the administrators facing last year's dramatic changes, those in the Brussels region probably had most to fear. As a bilingual region - part of it is Dutch speaking, while most in the capital speak French - the stresses were likely to show up more here than elsewhere.

"With two communities, there is a temptation for separatism," says Mr Picqué. But for all his doubts, and even during a long recession, such forces have remained at bay. More troubling in the short term, are the economic implications of federalism, if Belgium the federal state - a keen and dedicated member of the European Union - is to meet the convergence criteria for monetary union set out in the Maastricht treaty.

One fear of Mr Peter Praet, senior economist at Kredietbank, Belgium's leading bank, is that the new arrangements will make it very difficult for Belgium to meet Maastricht's stringent demands, particularly on control of the budget.

The real test will come in 1996, by which time Belgium, in order to take part in a single currency, will have to have reduced its notoriously runaway government deficit to just 3 per cent of GDP.

The new federalism also throws up potential problems for foreign policy. Since last year, Belgium's three regions



King Baudouin is dead: the royal family remains a focus for national unity

have had the right to sign treaties with other nations. Indeed, Flanders - the most chauvinistic of the three regions - has already signed a treaty on water with the Netherlands. Inevitably, such a devolution diminishes the standing of the Federal government.

Attitudes towards these new powers vary from region to region. Mr Luc van den Brande, president of the government of Flanders, is an

enthusiast. The right to sign treaties will, he says, "do much to stimulate and facilitate relations between Flanders and its European and international partners". In line with this, Flanders has set up a network of 70 economic representatives over five continents. It also has its own diplomats in Vienna, The Hague, Washington, Tokyo and Brussels.

His approach contrasts sharply with that of Mr Picqué,

"It may be possible for us to sign treaties with other nations, but it is unlikely that the UK or France would bother to sign treaties with a region," he says. As far as Brussels is concerned, it will continue to operate through the Federal government's embassies.

Another problem is that of transfers of resources. With regions free to collect certain taxes, there is a danger of a two-tier system developing in and around Brussels. Those who are wealthy enough to commute are gradually moving out of the Brussels region, to set up home just over the border in Flanders where taxes are lower. As a result, the tax base in Brussels is gradually shrinking, leaving the regional government short of funds and creating resentment that it has to pay for the city's infrastructure used daily by high numbers of "free-riders".

Many of these areas could in the future create resentments and tensions. Further, the ambitions of the regions differ widely. With Wallonia and Brussels more or less content with the current set-up, Mr van den Brande has publicly stated his desire for a totally independent Flanders.

Three things however, should act as a brake on the separatist forces. Firstly the monarchy, very much a symbol of Belgian's unity. Secondly, the city of Brussels and the problem of how, if total independence should be granted to the regions, the city would be split. Thirdly, there is the Belgian people's common history and a high level of intermarriage. These aspects, together with the lack of any religious tension, should ensure that at least for the time being, the loose federation will continue to thrive.

Interview: Luc van den Brande, Flanders' regional leader

'This is only the beginning'



Luc van den Brande in search of a new regional balance

Next month, when football fever grips the world, Mr Luc van den Brande, minister-president of the Flemish government, will be supporting the Belgian team, the Red Devils, writes EMMA TUCKER.

As yet, no Flanders team exists for him to support. Like the Belgian monarchy, the Red Devils remain one of a handful of institutions that inspire people like Mr van den Brande to call themselves Belgian, even if it is just for the duration of a football match.

The rest of the time, Mr van den Brande is without question Flemish. Minister-president of the region since 1992, he has steered Flanders through its first year of full federalism.

For the 49 year old politician this is only the beginning. Although wary of what he says - he has been rebuked by the King for thinly-veiled calls for Flemish independence - Mr van den Brande is keen to see yet more powers devolved to

the regions. "Is this the end?" he asks of last year's St Michael agreements, which completed Belgium's long transition from a unitary state to a loose federation. "I don't think so. It is possible that new competences, such as social security, will be transferred to the regions, but linked to the new framework."

"The debate in my view does not revolve around whether or not the Belgian level of government is disappearing, but around the way in which the Flemish and French-speaking communities may best live together in a modern federal state," he says. "I believe that the Flemish and French-speaking communities must in future work out, on a basis of

equality, what it is they wish to undertake jointly and are able to do better jointly."

He maintains that the conditions for federalism, together with consensus where required at a national level, are now in place. For a start, the St Michael accords have lowered the tension of Belgian politics.

For example, Mr van den Brande says that two years ago a Belgian from Flanders would not have wanted to turn up for the annual festivities in Namur, capital of French speaking Wallonia. "Since St Michael, the pressure has become less," he says. "It was necessary to have this reform. It was the best way of managing the controversies between the two major parts of the

country."

Meanwhile, Flanders is making the most of its newly acquired responsibilities, enthusiastically pursuing its own foreign policy on the one hand, while remaining "intense and loyal" to the Belgian diplomatic service on the other. It has been particularly active on trade, using the Flemish Foreign Trade Board as a defender and promoter of Flemish exports.

On the economics front, Mr van den Brande would like to see the levying of social security transferred to the regions, not least because in order to attract foreign investment to Flanders, he would like the authority to lower employers' costs. "It is not normal for us

to have our own regional industrial policy, but to not have any say over social security," he says.

Although he will not put a date on it - preferring instead to talk about Belgium's natural evolution - the Flemish minister president's ultimate aim is to see an even more decentralised Belgium, in which the federal government does little more than act as an "accepted go between" for the regions.

Such a vision, he maintains, is not out of line with the process of European integration, as it conforms to the notion of subsidiarity - devolving decision-making down to the most appropriate level.

His ambitions for Flanders lie in nicely to such a structure. And by the time Europe gets round to it, Flanders may even be sending its own football team to the World Cup championship.

Emma Tucker on industry's bid to contain costs

The fight goes on

Like most other countries in the European Union, Belgium is only just emerging from a long and hard recession. With the fragile recovery has come a revival of hope in the country's manufacturing sector. But the problems for heavy industry are far from over.

The sector remains a robust and important part of the Belgian economy. Manufacturing accounts for roughly a quarter of gross domestic product, and employs about 28 per cent of the labour force. But exceptionally high social security costs have made industrial employers fear that Belgian enterprise is pricing itself out of the market.

"We are the only country in the world where we still have automatic and general indexation of salaries, even during a recession," says Georges Jacobs, president of UCB, the chemical and pharmaceutical group, and head of the Federation of Belgian Enterprise. "We have the most generous social security system in the world."

The problem has become something of a fixation with Belgian industrialists. According to another prominent company president, workers in Antwerp are 20 times more expensive than workers doing the same thing just over the

border in Rotterdam, Holland. Prompted by the pain of recession, the government last year took action to lower employers' costs. This included a BFR75bn cut in social security expenditure and a pay increase limit of 2 per cent for the next three years, effectively a freeze on wages, once inflation was taken into account. But the Federation for Belgian Enterprise argues that the measures were inadequate.

"The government has done something, but it has not gone far enough," says Mr Jacobs, head of the FEB. "They are not doing enough to encourage Belgian enterprise."

If ever there was a time for the government to assist the overburdened manufacturing sector, last year's company results show that today is the ideal time. According to figures from the FEB most industrial sectors experienced their first rise in production in December last year, for the first time since the end of 1992. But for the whole of 1993, figures were negative virtually across the board. A sectoral breakdown shows:

● METAL, ELECTRICAL: deliveries dropped by 3.4 per cent in 1993, although excluding cars, the drop was a more worrying 7 per cent. The financial health of the sector

is meanwhile threatened by the high number of restructurings undertaken last year and a rise in bankruptcies. Orders from other countries, however, picked up towards the end of last year and should help the sector stabilise in this.

● STEEL: action by the European Union to stabilise steel prices should help the Belgian steel sector recover from the recession, although high social security costs continue to diminish the competitiveness of this sector against other EU producers.

● CHEMICALS: This year is likely to be better than the last, following a stabilisation of production in the fourth quarter of 1993. Prices have stopped falling and in certain sectors prices have begun a timid rise.

● TEXTILES: production dropped by 7.8 per cent in the first half of the year and by 5 per cent in the second. However, exports of carpets - in which Belgium leads the world - rose a spectacular 58.9 per cent measured by volume in 1993, principally thanks to exports of cheap carpets to Eastern Europe.

According to the companies themselves, the worst is over. Solvay, the chemicals company, and Belgium's second biggest enterprise, suffered particularly badly from the

world recession. Cheap imports of soda ash from Eastern Europe and the US also prompted the need to restructure.

As a result, 11 consecutive years of profit came to an end in 1993 with a spectacular annual loss of BFR6.9bn. Almost 600bn of the loss was caused by restructuring costs after the closure of several plants last year including two soda ash plants, one in Belgium and one in Germany, and a PVC plant in Austria.

Now, however, the company is hoping for a better year. It expects a very slow recovery this year, and faster growth next year. The pick-up will be assisted by the start of production of hydrogen peroxide at a new plant in eastern Germany. Prospects are also rosier at Petrofina, Belgium's largest industrial group. Like Solvay, the company was hit by the global recession, although it managed to stay in profit last year.

The group has refocused on core activities, abandoning those where the company was not competitive, such as coal, shipping, insurance, and property. It now expects a 5 per cent gain in productivity this year through investment and the gradual shedding of 2,000 jobs since 1991. A BFR26bn upgrading of its Antwerp ref-

nary should be complete by September, and the company expects oil and gas output to go up 15 per cent this year.

At UCB, Mr Jacobs is sanguine about prospects for his enterprise. He describes the company, which concentrates on a fairly narrow range of pharmaceuticals, films and packaging, as "the small, clever guy". Following a 17 per cent drop in profits last year, he now predicts that profits will be "at a good level" this year.

So overall, Belgium's manufacturing sector can probably expect a reprieve this year from the doldrums of 1993, even if growth remains unimpressive. Mr Gert Lambricht, a senior economist at Kredietbank, one of Belgium's biggest banks, says activity will be weak, but it won't fall further.

"It is also likely that wage costs will remain under control," he says, adding that lower interest rates and a bounce back from two years of falling capital investment will boost growth in the manufacturing sector. Furthermore, the far reaching restructuring undertaken by many of Belgium's big industrial companies such as Solvay should start to pay off this year and next, restoring prosperity to the sector.

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Recovery gathers speed

Contd from previous page should be non-partisan. He plays down the threat of an eventual split in the country between north and south.

In his view, the Belgian approach to regional and ethnic tensions compares favourably with the failure to hold former Czechoslovakia together, let alone contain the separatist violence in Spain and Northern Ireland. "This has never been in the view of the population, a revolution." Yet devolution and regionalisation still represent something of a conjuring

act. There is something of a "Now you see it, now you don't" quality about modern Belgium, particularly when the visitor travels outside Brussels into the Flemish heartland. It is only when something dramatic happens - such as the death last year of King Baudouin, a monarch truly loved by his people - that the national spirit comes alive.

To a lesser degree, Mr Dehaene, though far from popular, has also emerged as a figure around which the diffuse ethnic and political coalitions

in Belgium can rally. He has done so for more than 15 years, first behind the scenes as a power broker and chief de cabinet for prime minister Wilfried Martens and latterly as prime minister himself from 1991 when no one else could win sufficient support for the job.

If Mr Dehaene were to move to the European Commission, it could remove a critical hub in Belgian politics. Leaving aside the rival claim of Mr Lubbers, Dutch prime minister, this is his biggest obstacle to succeeding Mr Delors.

BELGIUM 3

Lionel Barber surveys the aftermath of the upheaval in the government bonds market

Intact after the earthquake

Most revolutions pass Belgium by. Yet even the most conservative practitioners in the Kingdom's financial markets have understood the wisdom of Edmund Burke's dictum that it is necessary to reform in order to preserve.

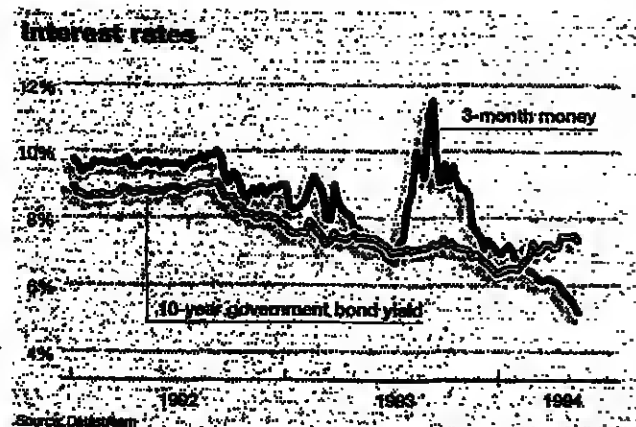
The changes underway in Belgium cannot claim to match the Anglo-Saxon "Big Bang" which shook New York in the 1970s or the City of London in the 1980s. Yet they are significant in Belgian terms.

Over the past five years, the country has witnessed a restructuring of the government bond market, the introduction of an active market in short-term Treasury bills, and the creation of a Belgian Futures and Options Exchange (Belfox) - all of which have increased the liquidity of the domestic bond market dramatically.

"It shows you can have an earthquake without the demolition," says Mr Peter Praet, chief economist of Générale de Banque.

Little Bang began in 1989 when Mr Philippe Maystadt, the Belgian finance minister, decided to restructure the government bond market in a fashion similar to changes already underway in neighbouring France.

The reforms meant scrapping the traditional means of financing public debt through a favoured consortium of



banks, along with interest rates set by the National Bank of Belgium.

The old system was cosy, profitable and uncompetitive. A secondary market barely existed, and the intricate tax processing of "classic" government bonds kept foreign investors away. And the banks themselves were lagging behind their European counterparts in innovation.

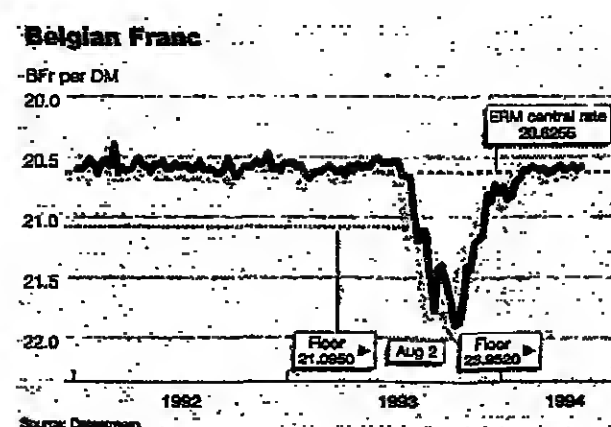
Mr Maystadt, who has since become one of the most respected finance ministers in the European Union, calculated that he could get a better price for government debt by opening up the market. He was right: the new, highly liquid

20-year, 10-year, and short-term linear bonds (OLOs) have saved the Belgian government billions of francs, according to

Mr Praet. With an outstanding net debt of BFR9,000bn, Belgium's public debt ratio to GDP is hovering around 125 per cent - higher than Italy's. Last year alone, the debt increased by BFR750bn, double the actual budget deficit.

This makes the government bond market one of the most important in Europe. But it also explains why Mr Maystadt, a fervent advocate of European monetary union, is looking to save every sou so as to meet the demanding Maastricht criteria required to join EMU.

In 1993, the state raised BFR1,530bn, while finding investors for converting BFR60bn in long-term OLOs. Mr Jean-Paul Parmentier, head of fixed income bonds at Kredietbank in Brussels, argues



that the more flexible management of debt helped tide the government over a sticky summer when the franc came under speculative attack.

Ms Jane Edwards, economist with Lehman Brothers in London, agrees. In her opinion, the National Bank's success in narrowing to within a hair's breadth the spread in short-term interest rates with Germany, while maintaining the currency link with the Deutsche Mark, has been "remarkable".

Similarly, the spread in 10-year bonds has narrowed from around 100 basis points at the start of the year to between 80 and 85 basis points, while other countries such as France have watched spreads widen.

Some bond market observers believe that the Dehaene gov-

ernment would like to exploit this new-found flexibility, perhaps by mining the short-end of the market, where interest rates are lower. The reason is that, with only two budgets remaining until the European Commission's 1996 review of EU member states' economic (and debt) performance, the government wants to produce the best debt figures possible ahead of a political judgment on EMU.

Such a move could, however, strain the official policy of consolidating the debt into long-term, stable debt. It also assumes that the recent rise in long-term interest rates in Europe is temporary only. (Any further upward trend would, of course, cost the government money). Mr Maystadt insists that judgments on refinancing debt are taken according to commercial logic, and there is no special effort to move into two- or three-year covenants.

In the minister's view, the second phase in Belgium's reform programme should be to promote the diversification of products and stimulate greater competition among operators. There is plenty of scope.

A recent Générale de Banque study argued that Belgian investors interested in bonds still have a restricted choice in their home country, and could be wooed more effectively.

The study estimated that Belgians bought an estimated BFR350bn to BFR400bn in foreign bonds, around one third of which was in Luxembourg francs (an indication of how



Générale de Banque in Brussels says investors could be wooed more effectively. Picture: Tony Andrews

Fashion houses win a growing reputation, writes Victoria Greenwood

Flair, boldness and originality

Belgium is best known for beer, frites, chocolate - and fashion. Next to the old Belgian brand-names of Stella Artois and C&A d'Or, a host of new names is making its mark in the international fashion world.

Dries Van Noten, Anne Demeulemeester, Dirk Van Saene and Walter Van Beirendonck may not be as big as Chanel and Yves St Laurent, or as famous as Armani and Lagerfeld, but their labels are much sought after among the cognoscenti and word is spreading fast.

The new Belgian designers can be spotted today in stores ranging from Bergdorf Goodman in New York and Neiman Marcus in Los Angeles to Whistles and Joseph in London, Joyce in Hong Kong, and to outlets in an increasingly fashion-conscious Tokyo. Back at home, Queen Fabiola has become an ambassador for the Belgian fashion industry, sporting Watelet dresses, Strell coats, Marie Storms jewellery and, always, the Delvaux handbag.

The rise of contemporary Belgian fashion began in the early 1980s in Antwerp, at the Académie Royale, the town's now famous art school. It was driven by a small group of talented, avant garde and ambitious students who became known as the Antwerp Six.

The Belgians - government helped - to promote these designers not through direct financial aid but through a competition known as the Golden Spindle. Originally set up to give a shot-in-the-arm to the ailing textile industry, the award acted as a magnet for designer talent, helping young cash-strapped artists to forge an image. Still, these were hard times. Dirk Van Saene recalls how they all shared the same van for a fashion show in London.

Today, the collective

approach is out. Each designer wants to be treated as an individual with a distinct label. Martin Margiela is typical of the contemporary Belgian style, with his unfinished edges, asymmetrical hemlines and recycled material. This deconstructionist mode marks a clear break from the glitz and glamour of the 1980s and reflects a more restrained style for the politically chic, environmentally correct 1990s.

Dirk Van Saene, who has had his ups and downs in the volatile fashion business, believes the market is develop-

ing in two directions. In one corner stand the large multi-label department stores who can be expected to dominate the market in terms of volume; but there will always be plenty of room and profits for the specialist stores with the small exclusive labels.

The public is always looking for something exclusive and will always be willing to pay for it, he says. That does not mean that customers want to wrap themselves in the excesses of the catwalk; rather they are looking for something simple, serene and understated.

Van Saene's latest collection is simple and elegant, reminiscent of the early 1960s and Jackie O. It is hand-finished in luxurious materials - and expensive. With only 16 clients, he estimates that he generated a turnover of around BF 6m. He relies on ateliers in the Ghent, Brussels and Antwerp region, all paid on a piece-work basis; but his textiles come from Ireland, Scotland, Italy and France.

Modern Belgian fashion was launched in the early 1980s in Antwerp's Académie Royale, driven by a group of talented and ambitious avant garde students who became known as the Antwerp Six

is colour. WALT is style."

Translated, this means affordable, available and adaptable - the Walt fashion philosophy. In practice, it means fun clothes for the street: T-shirts for BFR 1,500 (\$45); sweaters for BFR 5,000. All are produced and distributed by Mustang Italia, part of the German Mustang Group.

Second, Van Beirendonck has for the past three years run a separate collection of knitwear which draws its inspiration from Naïve Art. The style is bright and humorous. Dresses and sweaters range from BFR 15,000 to BFR 35,000. Sold world-wide, he claims these high priced items are in enough demand to be recession-proof.

Traditional Belgian industry has not been slow to spot the demand for avant garde Belgian products. In 1985, Monarca, an old Belgian family shoe company, adopted Dirk Bikkembergh who had just won the Golden Spindle competition.

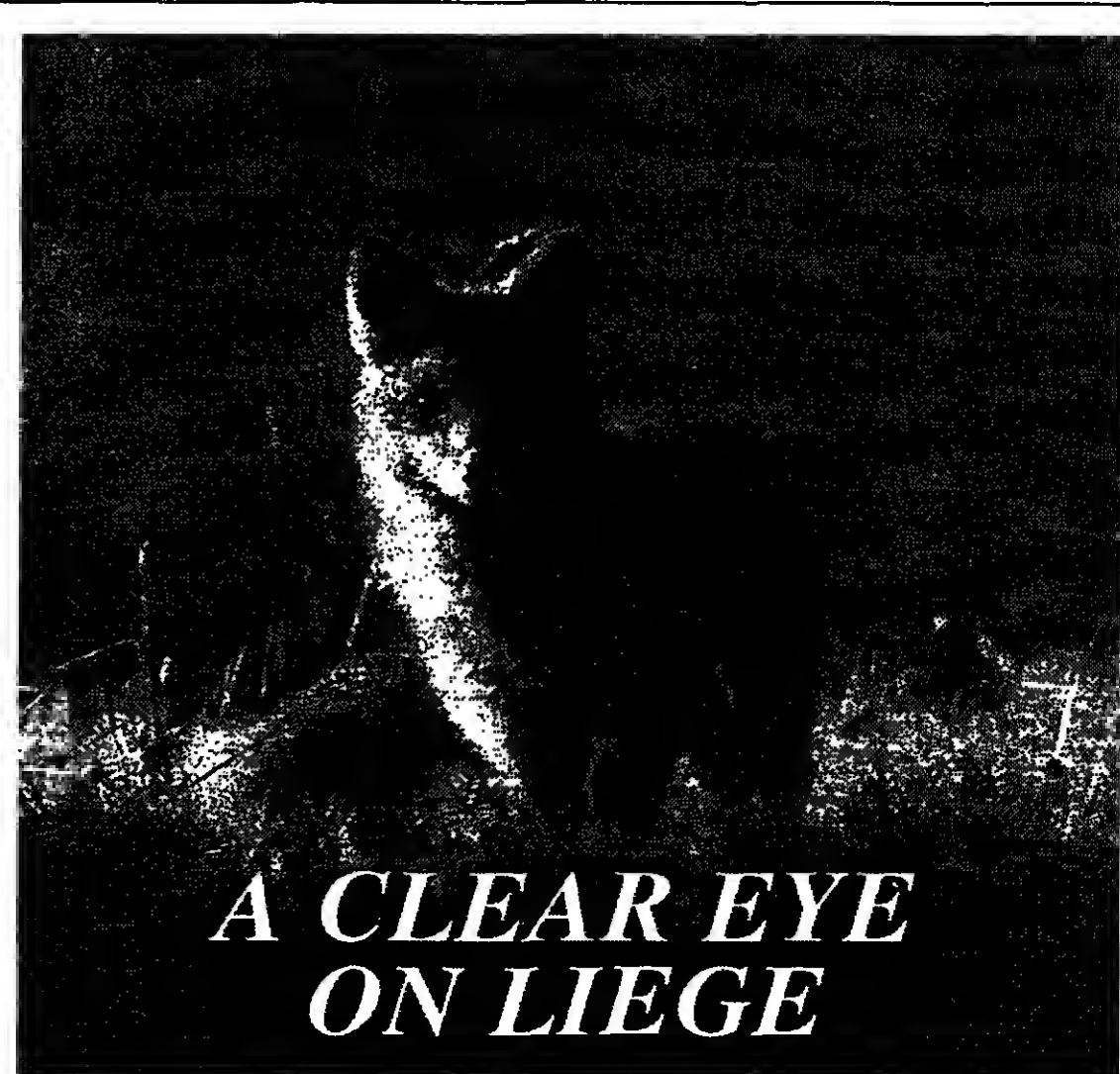
Today, Monarca produces around 15,000 pairs of Bikkembergh shoes annually from its factory in Lier, just outside Antwerp. The shoes are made of Belgian and Italian leather, for distribution in markets ranging from Switzerland to the US. Bikkembergh says its complete line of shoes, knitwear, clothing and accessories generated BFR 25m-30m last year.

Such talk of facts and figures is anathema to Gerald Watelet, the self-styled "impetuous" on the Belgian fashion scene. This youthful, audacious 30-year-old from southern Belgium knows little of art schools, or the deconstructionist mode; but he has made his name on sheer talent - and an unusual partnership with a Flemish architect called Norbert Normant.

Watelet was brought up in Namur, Wallonia. In line with his parents' wishes, he steered clear of the fashion world and trained in the hotel business. At 21, he became the youngest maître d'hôtel in Belgium. But before long he switched direction, to indulge his lifelong passion for elegance.

He and Normant opened a haute couture salon in Brussels. Today, located in the prestigious Avenue Louise, they sell 80 per cent of their products to Belgians. Their clientele are predominately working women aged 40 to 65 seeking a simple, timeless mode. For Watelet, culture is not just a fashion show; it is about cut, and what people can wear in practice.

Watelet and his team exemplify French fantasy and Flemish business acumen in action and stress timely deliveries, superior quality and high visibility. It looks like winning combination - and it explains why Belgian fashion is here to stay.



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BELGIUM 4

Trade union militancy loses some of its edge, writes Gillian Tett

Retreat from the brink

On paper the proposal looked startling. The workforce was to face a 20 per cent cut in pay. Half of the employees would be Chinese. And as further provocation the would-be purchasers were demanding partial exemption from employers' social security contributions.

But when a group of Chinese hiders made precisely these demands earlier this year, as part of their bid for the bankrupt New Tubernase steel mill in Liège, Flanders, the local union's response was even more surprising. In place of public protests, the local branch of the FGFB, Belgium's main socialist union, quietly started negotiations with the Chinese bidders.

"We can't accept a 20 per cent pay cut. But between 0 per cent and 20 per cent there is a lot of room for negotiation," explained Mr Jean Potier of the FGFB, who explained that the union was simply being "pragmatic", given that the plant's 700 former workers had already been laid off five months ago.

In the event, the Chinese offer fell through. But the episode highlights a shift in Belgium's labour relations where, after decades of wielding formidable political power, the unions are increasingly on the

defensive. On paper at least, their numbers remain impressive, with union membership rates of some 70 per cent. Although the proportion of active workers who are unionised is rather lower - the 70 per cent figure includes members who are currently unemployed and on early retirement - this nevertheless leaves Bel-

Belgium is one of Europe's most unionised countries, but the erosion of heavy industry is weakening the unions' base and bargaining power

gium one of the most unionised countries in Europe, second only to Scandinavia. But the ongoing erosion of Belgium's heavy industries is leading to an erosion of the unions' power base and bargaining power. Almost two thirds of Belgian employees now work in the service sector, with almost 18 per cent of the total workforce part-time. Unemployment stands slightly above 13 per cent, after almost touching 14 per cent last year.

Meanwhile, the Belgian Christian Democrat government of Jean-Luc Dehaene has started to wage a new war of fiscal austerity. This is designed to curb not only the country's huge public debt but also its high labour costs, cur-

rently calculated to be almost three times higher than average labour costs in France, Germany, UK, Italy and Netherlands.

The unions, split three ways between Christian Democrat, liberal and socialist groups, are not taking the shift quietly. Last November, the unions called the country's first gen-

eral strike for 58 years in protest against the new austerity package, which proposed a 5.5 per cent cut in Belgium's social security expenditure - including a reduction in employers' social security contributions - and a pay increase limit of 2 per cent for the next three years. Allowing for inflation this 2 per cent limit amounted to a virtual wage freeze.

The one day strike effectively paralysed the country, prompting an angry response from employers, who are now demanding tougher government controls to prevent a repetition of the rough picket tactics used last year. Mr Jan van Holm, director of labour relations at Federation of Belgium

Enterprises, the main employers group, said: "At first we [in the FBE] were astonished and then very upset about these new tactics, which seemed to breach the usual range of human freedoms."

But after a few brief flashes of violence, the protest subsided and the government pushed through most of the controversial points of its austerity package - including the 2 per cent freeze on wages increases for the next three years. According to Mr Peter Praet, chief economist at Générale de Banque, that the main outcome of the strikes may have been to illustrate the union's dwindling influence.

"The strikes were more of a symbolic nature. The general feeling we have is that they proved that the unions were not very combative," he says, adding that the most powerful pressure against the 2 per cent wage increase ceiling may finally come not from the unions but employers themselves. If the Belgium economy picks up later this year, as predicted, companies may start to demand that the ceiling is dropped to allow them to attract the best labour, he suggests.

The unions themselves strongly disagree. "Talk of the



Pulling their punches: steel workers in Brussels protest at the industry's run-down in countries of the European Union. Picture: Reuters

union's decline is exaggerated. The strikes showed we could mobilise the workers - and could force the government to negotiate," insists Mr Roland DeWulf of the CSC, the Christian Democrat union. Although he concedes that the results of the strike "were not

exactly desirable", he insists that the unions have no intention of changing their tactics or campaign.

At the same time none of the unions expects a this type of industrial conflict to recur this year, although they say protests could be stepped up

when negotiations are re-opened on a proposed inter-professional agreement at the end of the year.

Meanwhile, interim negotiations between the employers and employees have achieved a small, but symbolically significant

breakthrough. After years of wrangling, unions have finally officially accepted that Belgium does face a labour costs competitiveness problem - although they remain at loggerheads with the employers about how to define it.

The economic auguries are promising, writes David Gardner

Spring is in the air



Finance Minister Philippe Maystadt: pondering the paradox

year of BFR400bn, or 5 per cent of GDP. This is double the average surplus of the second half of the 1980s, but, most importantly, the mix has changed.

About half of the surplus is on the trade account, and three fifths of it is Belgian, whereas the banking centre of Luxembourg traditionally accounted for around three quarters.

The government is closely studying why Belgium's exports and market share should be rising. Belgium exports around two thirds of its output, and two thirds of that goes to Germany, France and the Netherlands, its neighbours and peers in the "hard-core" group of ERM currencies.

But wages had risen more slowly in those depressed markets, and Belgium was and is paying a competitive price for its franc fort policy of shadowing the D-Mark. "We are trying to figure out the paradox," smiles Mr Philippe Maystadt, the finance minister.

He and his officials suggest the margin between wages in Belgium and in its competitors was relatively small in the light of the persistent trend towards higher Belgian productivity gains.

"I'm afraid the adjustment is being made not through the current account but the rise in

unemployment," Mr Maystadt says, forecasting a jobless rise to 10.1 per cent by year-end before things improve.

But the improvement could then be quite rapid. Mr Peter Praet, chief economist at Générale de Banque, points out that inventories have been cut drastically, leading to one of the lowest ever levels of stocks. Export-led growth now should therefore feed into a revival of investment, then of domestic demand, and then of jobs.

Unlike the recessions in 1975 and 1980-83, most of Belgium's generally low debt and cash-

rich companies remain respectably profitable. The overburdened social security system has taken a good deal of the shock of lay-offs and early retirements, while the BFR400bn take from new energy taxes is being recycled into the tradeable goods sector to reduce employers' payroll costs.

Mr Alfons Verplaetse, the governor of the central bank, reckons these transfers alone should create 50,000 new jobs over the next four years. "For a politician four years is an eternity but not for Dehaene," he remarks.

Sticking with the Global Plan of which this is part is vital. Mr Dehaene is now in the running to succeed Mr Jacques Delors as president of the European Commission, but his tough managerial reputation is more likely to be needed to ensure the success of the Plan - and to take the further, sensitive measures needed to deal with Belgium's debt.

The Plan and spending cuts made last year look as though they will quickly bring the social security deficit into rough balance, and cut the budget deficit from 7.3 per cent in 1993 to 6.7 per cent - under the likely EU average - this year.

Still to be attacked is the debt stock, equivalent to 130 per cent of GDP, which towers over the economy and the franc even though Belgium's huge stock of household savings, equivalent to 175 per cent of GDP, far outweighs it.

The debt is over twice the 60 per cent debt-to-GDP ratio set down in the Maastricht treaty

as the marker for economic and monetary union (EMU) by 1997 or 1999 - to which Belgium is firmly committed. The debt stock is a useful alibi for pushing through structural reform of public finances and attacking the budget deficit.

Lower interest rates plus the repricing of virtually all Belgium's more expensive debt has, moreover, brought significant savings in an interest bill which had grown to 11 per cent of GDP.

As Mr Verplaetse points out, "once nominal growth exceeds the deficit, we're in a virtuous circle," helping bring down the debt/GDP ratio, probably from 1995.

Growing privatisation receipts could also be used to retire debt. But a new assault on public finances will almost certainly be needed before 1996, when the Maastricht review of early candidates for EMU will take place. For instance, the Brussels region is in trouble because of its shrinking tax base, while the education system on both sides of the language divide (but especially in Wallonia) is heading for insolvency.

This would need a very tight budget for 1996. But that is virtually impossible unless federal elections are brought forward from their November 1995 deadline. Even then, going further than the government has already done will be socially and politically risky.

In Mr Praet's view of the medium-term, "you need somebody like Dehaene to take these sorts of decisions."

Profile: CENTRAL BANK GOVERNOR ALFONS VERPLAETSE

A force to be reckoned with

Somewhere near the top of the list of movers and shakers in modern Belgium stands Mr Alfons Verplaetse, governor of the central bank.

His affable manner - accompanied by guttural chuckles and the occasional "ooh-lah-lah" when describing the tumultuous events in the currency markets in 1993 - offers few clues as to the importance of his job. But make no mistake: "The Force" is a force to be reckoned with.

As head of the National Bank of Belgium, Mr Verplaetse is the guardian of the national currency. He is the architect and standard bearer of the long-standing policy of shadowing the D-Mark, a policy which has served as the counter-inflationary anchor for Belgium but which came under severe strain during last summer's currency crisis inside the European Monetary System.

Mr Verplaetse also played an influential, if at times mildly controversial, backroom role last year ahead of negotiations between government, employers and trades unions on the global pact to bolster competitiveness, cut social spending and create more jobs. The governor supplied the intellectual framework (and the number-crunching) for the pact.

Mr Verplaetse has been governor of the National Bank since 1988. Born in Zulte, in western Flanders, he took a degree in commercial science at the Catholic University of Leuven, and joined the bank in 1983. His career took off when he became chief of cabinet of then prime minister Wilfried Martens, where his formative experience was preparing the



Alfons Verplaetse: champion of shadowing the D-Mark

throughout the autumn. Market operators, having witnessed the virtual collapse of the ERM, were determined to test the resolve of the Belgian authorities.

Looking back, Mr Verplaetse says the National Bank's strategy was straightforward: "We had to buy time for the government." This involved two separate manoeuvres. The first was a rise in short-term interest rates which risked choking off the early signs of economic recovery. The second was a more complicated effort to support the government's plan to secure an agreement on an austerity pact with unions and employers.

In retrospect, even Mr Verplaetse is guarded about the experience. On the one hand, the social pact included some 80 per cent of the Verplaetse panel's recommendations; but the experience of not being able to secure a consensus across the board clearly came as a surprise to the governor. "It was a new phenomenon," he says, noting that in 1982 it was easier.

A Belgian Cabinet minister is blunder: "It was a mistake, and it will not happen again."

However noble the political intention, the impression was left that the National Bank was ready to compromise its independence, just at the time when central bank independence is a key tenet of the Maastricht treaty's provisions for European monetary union.

Yet without the contribution of Mr Verplaetse, it is doubtful if the global pact would have got off the ground.

Lionel Barber

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